PILOT Evaluation Program Project:
Evaluation Report

Prepared for:
Memphis and Shelby County Division of Planning and Development

December 1, 2005

Prepared by:
URS Corporation & NexGen Advisors

December 1, 2005

Mr. Rick Copeland
Director Memphis & Shelby County Division of Planning and Development
125 N. Main, Room 468
Memphis, Tennessee 38103

Dear Mr. Copeland:

The Consultant Team, comprised of URS Corporation and NexGen Advisors, is pleased to submit this report for the PILOT Program Evaluation Project, which evaluates the effectiveness of the Payment-In-Lieu-of-Tax ("PILOT") programs as a key economic development tool for the City of Memphis and Shelby County. This study provides guidance in understanding the historical and prospective effectiveness of the PILOT programs as they relate to the economic development needs of the local area, as well as recommended changes and refinements to the program to help make the program more effective in the future.

As we understand there is currently much controversy as to whether PILOTs are granted without appropriate justification and to what level they are needed for Memphis/Shelby County to leverage private investment stay competitive with other competing markets. In addition, we address such issues as whether the PILOT program should continue to be used and various policy issues.

Our recommendations, conclusion, and analysis are stated in the Report.

We appreciate the opportunity to serve you on this engagement and look forward to discussing the results of our Report with you.

Very truly yours,

NexGen Advisors	URS Corporation
By	By
Michael S. Laube	Karen Gross

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EXECUTIVE SUMMARY

This Report has the purpose of evaluating the payment-in-lieu-of taxes (PILOT) process, its effectiveness, and its efficiency. In performing this task, we have interviewed key stakeholders from various segments of the government and business community, completed a competitive cost analysis comparing Memphis to other competing marketplaces, and we evaluated various executed PILOT agreements from an economic/ fiscal impact standpoint. From these data sources, we have drawn conclusions and recommendations as to how to increase the PILOT program's efficiency and effectiveness and strengthen municipal policy around this program and the Economic Development function in Memphis and Shelby County.

Following is a high level executive summary of our conclusions and recommendations.

Policy

- The City and Shelby County should create an overriding policy to include: 1) what types of businesses should be attracted, retained and thereby induced via public investment; and 2) where these businesses should be encouraged to locate and invest to achieve the greatest social benefit.
- The City and County should hold a series of "summits" with a select group of elected officials, community leaders, business leaders, and key stakeholders to help define the City/County's economic development goals and vision. Findings from these summits should be incorporated into an overall economic development policy framework plan, which is recommended to be tied into the City/County's comprehensive land use plan. A clear policy should be developed from these summits, with concrete goals and steps to achieving these goals.

Procedure and Application

- The idea and process of preparing an economic impact analysis and evaluation matrix as the sole measures of whether to grant a PILOT should be abandoned.
- A general and very flexible framework, based upon business and market criteria, should be developed.
- City staff should review each deal under the auspices of the guidelines, but a high amount of professional judgment should be allowed for projects that do not fit the guidelines ultimately implemented.
- The PILOT award amount should be based on each project's own merit and should not be confined to an annual PILOT award budget. This will allow the City/County to take advantage of all economic development activities and not limit its growth in a particular year due to budget constraints.
- The onus of responsibility of justifying the need for public assistance for each project should be shifted to the private sector.

Evaluation Process

- The matrix approach to awarding PILOTs should be abandoned and replaced by a "but for" test or the true economic need of a project.
- The "but for" test means that private investment is not reasonably anticipated without public investment relative to this specific proposed project.
- The "but for" test could be demonstrated through a gap analysis, a competitive cost analysis for competing sites, or a combination of the two.

Board Structure/Decision Making

We recommend that the board structure and decision making authority be changed and streamlined. We recommend that the Industrial Development Boards ("IDBs"), including the *Memphis Center City Revenue Finance Corporation ("CCRFC"),* the *Memphis Health, Educational and Housing Facilities Board ("MHEHF"),* the *Shelby County Health, Educational and Housing Facilities Board ("SCHEHF"),* and any other entities that grant PILOTs, become an advisory board and the elected boards (City Council and County Commission) become the actual granting agencies or final decision makers. Following are some methods to more efficiently structure the board.

- The IDBs and other current PILOT issuing entities function as an advisory board. Each IDB/PILOT issuing entity makes a recommendation of approval or disapproval to the elected boards for their subject projects, and the elected boards vote on approval or denial of the PILOT. Practically speaking, all PILOT requests can be done on a consent agenda item on a periodic basis.
- IDBs/PILOT issuing entity have initial decision making authority. IDBs/PILOT issuing entity takes a vote on approval or denial of the PILOT request. The elected boards can overturn the IDB/PILOT issuing entity's vote with a super-majority. When using this structure, the super-majority vote to overturn is usually a two-thirds (67%) majority.
- The City Council and County Commission have decision making authority. Assuming a congruency of goals between the City and County, it is recommended that Memphis City Council would have decision authority over projects located in the City of Memphis and the County Commission would have decision authority over projects located in unincorporated areas of Shelby County. Such an arrangement would help streamline the overall PILOT approval process.
- Another option is to keep the IDB Board structure and other PILOT issuing entities, however, create one main PILOT Board with all approval power over all PILOTs and set sub-boards for recommendations on individual projects. Those recommendations can then be effectuated at the overall PILOT board level as a consent agenda item or a super-majority to overturn the recommendation of the sub-boards.

Business Term/Contracts

- The PILOT recipients need to be more accountable to the City/County.
- A standard contract will not fit every situation. Each project should be negotiated individually and individual business terms should be set forth.
- Some considerations in the contracts should be:
    - Incorporation of provisions that provide that a company stay and perform for a period of time in exchange for the PILOT or incorporate a payback amount if the company does not perform by the agreed upon terms.
    - Each entity that has been granted a PILOT provide an annual report, verified by a third party, that delineates relevant economic information about their operations.

Competitiveness of the Marketplace

- Memphis/Shelby County needs to adapt its business and economic development incentive system to be able to be flexible with applicants.
- The PILOT program alone cannot solve every issue. Memphis/Shelby County needs to develop more economic development tools.

Broadening of Services/Additional Programmatic Funding Sources

- The IDB/Economic Development staff should engage in activities similar to the Center City Commission (CCC), such as acquiring and assembling land and playing a more active role in facilitating redevelopment in the Memphis area.
- Memphis/Shelby County should promulgate new policy and new ordinance and/or legislation to provide for a menu of programmatic funding sources that can be used to address needs on point.

Marketing Approach

- It is recommended that a public relations firm be hired to market the agreed upon changes to the PILOT program to educate the general public to help gain acceptance and understanding of the program.

INTRODUCTION

This Report has the purpose of evaluating the entire payment-in-lieu-of taxes (PILOT) process, effectiveness, and efficiency. In performing this task, we have interviewed key stakeholders from various segments of the government and business community. We have gained insight from the Industrial Development Boards (IDB) and PILOT boards, private sector industry, real estate developers, City/County Staff, City/County Officials, practicing attorneys, and other professionals. In addition to this, we have reviewed newspaper articles, publication articles, and various white papers that have been written on this topic.

Secondly, we then completed a competitive cost analysis comparing Memphis to other competing marketplaces. Specifically, we compared Memphis to the cost picture of DeSoto County, Nashville, Indianapolis, and Louisville. We then compared the cost picture in the key industries of distribution, high-tech manufacturing, office, and bio-technology.

The next step was to evaluate various executed PILOT agreements from an economic/ fiscal impact standpoint. We evaluated a cross section of agreements ranging from a successful multi-phased project to a project that relocated outside of Tennessee after PILOT expiration.

From these voluminous sources of data, we have drawn conclusions and recommendations as to how increase efficiency, effectiveness, and strengthen municipal policy around this program and the Economic Development function in Memphis and Shelby County.

Study Focus

Currently there are four boards appointed by the City of Memphis and Shelby County governments that grant effective property tax abatements via the PILOT program, which include the following, as well as numerous industrial development boards of local municipalities located throughout Shelby County:

- Memphis and Shelby County Industrial Development Board ("IDB")
- Memphis Center City Revenue Finance Corporation ("CCRFC")
- Memphis Health, Educational and Housing Facilities Board ("MHEHF")
- Shelby County Health, Educational and Housing Facilities Board ("SCHEHF")

Since the primary focus of this study was to evaluate the PILOT impacts on industrial and commercial development, it was decided that the operations of MHEHF and SCGEHF would not be included in this analysis, since these two boards primarily focus on residential development. Heavy analysis was focused on the IDB since it has a much larger jurisdiction area, which includes both the City of Memphis and the unincorporated areas of Shelby County, as compared to the CCRFC, which can only issue PILOTs to projects located in the Memphis Central Business Improvement District.

Key Areas of Consideration

Members of the Memphis government and business community have expressed concerns over how well the PILOT program is being administered. These concerns can be categorized as follows:

- Is Memphis/Shelby County actually gaining revenue from the PILOT program through economic development or is it giving away public tax monies unnecessarily?
- Is the PILOT program being targeted to the right industries?
- Is there a cohesive plan or public policy for using the PILOT program appropriately?
- Is the program designed or structured to leverage the maximum private investment?
- Should the PILOT program continue to be used as a business incentive in Memphis and Shelby County?

These issues are multi-faceted in nature and the decision on these issues is really a matter of judgment. We do draw some very strong conclusions and recommendations on these topics and recommend good healthy discussions among key government and business community stakeholders to apply the conclusions and recommendations of this document.

History of Program

In 1987 The Shelby County Board of Commissioners and the Memphis City Council granted the IDB authority to grant financial incentives in the form of PILOTS to further attract new business and new job opportunities. The PILOT program is enabled through State of Tennessee legislation (*Tennessee Code Annotated Sections 7-53-101 to 7-53-311)*. The purpose and mission of the program is to promote high quality development in all parts of the City and County and to facilitate ongoing improvement in the quality of life for its citizens. Insofar as these objectives are generally served by the enhancement and expansion of the local economy, the City/County will give consideration to providing PILOT incentives as stimulation for economic development.

In the State of Tennessee, local governments are not permitted to grant property abatements to private properties. Without this economic development tool, Tennessee local governments were at a disadvantage. Needing such a tool, the PILOT program was created where the ownership of the private property is conveyed to the Industrial Development Board, which results in the reclassification of the property as “tax exempt” and the private owner leases the property from the IDB for a specified annual payment (the “PILOT payment”). At the end of the PILOT term, ownership is transferred back to the private owner and the property is fully assessed and taxed.

Over the years there have been a number of update/changes to the PILOT program in terms of administration, eligibility, evaluation, and operations. The major changes are highlighted below:

PILOT Length. In 1996 the PILOT program was restructured, increasing the maximum 5-year PILOT term to a term not to exceed15 years. For any PILOTS in excess of 15 years need the approval of The Shelby County Board of Commissioners and the Memphis City Council. The scoring matrix was also first developed and implemented, providing a framework tool to determine the length of PILOTs to be granted for each application.

Scoring Matrix Update. In 1997 the four matrix categories of 1) Job Creation; 2) Wages; 3) Capital Investment; and 4) Location were re-evaluated and updated to reflect a more refined and targeted scoring system for each category.

Payment of a Portion of County Taxes. In 2000 all PILOT agreements required that only 75% of Shelby County property taxes be abated while the City of Memphis remains at 100% abatement. The payment of the remaining 25% County taxes gets directed to the County School Board.

Community Reinvestment Credit (CRC). In 2003 a Resolution of the Council of Memphis, TN, authorized the IDB to amend its Corporate Charter relative to the CRC Guidelines for the PILOT Program, which enabled PILOTs to be granted in 2nd generation buildings. Previously, PILOTs could only be granted to new construction projects.

Performance Window Update. In 2003, the performance window allowed to achieve performance criteria as documented in the PILOT agreement (e.g. number of jobs, salary levels, capital investment, etc.) was reduced from three years to two years.

Overall Observations

Competitive Cost Picture

The Competitive Business Cost section of this report clearly shows that Memphis, on an overall basis, is a more expensive place to do business than key competing marketplaces. This leads to the general preponderance of conclusion that the PILOT program is needed and should be used. From a macro economic perspective our analysis found that the program should be better targeted and applied more effectively on a deal by deal basis to achieve more revenue efficient results. The Recommendations Section of this report provides a series of changes to achieve greater efficiencies and effective results by improving the PILOT process.

Economic Impact Picture

As presented in Section 2 of this report, all four of the PILOT projects studied in detail showed a positive net gain in Shelby County/City of Memphis fiscal revenues less the PILOT incentive over a 20-year operations period and construction phase. However, between these four projects there are significant differences between the amount of positive net fiscal revenues that have been or are estimated to be received. The main factors contributing to a higher net benefit include the following:

- Creation of new jobs
- Attraction of skilled workforce from outside the local area with higher annual average incomes of generally over $40,000
- Projects that generate visitor spending

Projects that attract a new skilled workforce to the area and/or create new jobs typically generate the greatest net economic benefit to the area, which often provides the justification needed to grant public incentives to these projects. However, it can be equally important to the local community to assist projects that retain and provide new job opportunities to existing local residents. Even though projects that provide and retain job opportunities for local residents may not generate significant "new" net benefits, they will create a higher quality of life and a more attractive place to work, live, and play for all residents and visitors, which will have a positive qualitative long-term effect on the area that is often difficult to quantify numerically.

While economic impact analysis is important tool to help justify and determine the amount of public assistance needed for a project, it should not be the only tool. Consideration should also be given to a project's qualitative factors that cannot be easily quantified, as well as any extraordinary development costs a project may face, in determining the appropriate level of public assistance.

Overall Picture

From a macro-economic development perspective the PILOT program should continue to be used as a redevelopment and economic development tool. We conclude that by the fact that Memphis and Shelby County is generally a more expensive place to do business and the projects that PILOTs have been granted have contributed positively to the regions economic picture. However, as you will see the discussion below, the PILOT program needs refocus on different evaluating criteria and provide more flexibility in the program such that it can be more appropriately targeted and used to better leverage private investment in the community.

SECTION 1: ***CONCLUSIONS AND RECOMMENDATIONS***

The following sections highlight observations, conclusions and recommendations regarding the overall PILOT process in a detailed manner.

I. Conclusions

1. Procedure and Application

Overview

- The process begins by the requesting business contacting the City and County Economic Development Department ("ED") and discussing the project to determine what incentives can be provided.
- The prospect submits all project supporting documentation to the IDB including but not limited to a company and project description, cost estimates, employment, financial statements, environmental studies.
- The ED prepares a staff report and recommendations on the PILOT terms to the IDB and the Mayors.
- The prospect obtains the application and copies of IDB Lease Agreements. The prospect's legal counsel and IDB counsel review the terms of the Lease Agreements and decide on final terms.
- The applicant is required to meet before the IDB and the IDB either approves the PILOT and stipulates its terms or denies the PILOT.
- If approved, the PILOT closings are scheduled and appropriate documents are filed with appropriate City and County offices.
- The application and associated scoring matrix (attached as Appendix F) is the key element in determining the length of a PILOT and as such its value.
- The application provides company and project information including number of jobs the project will create, associated wages, and capital investment.
- Based on the application, the scoring matrix is completed. The matrix assigns points to the project based on the investment level, number of jobs created, wage rate, and location of the project.
- The IDB also has the discretion to award bonus points for special circumstances.
- The length of the PILOT term is determined by the points awarded to the project.
- The suburban IDBs often ask for assistance from the Memphis/Shelby County IDB staff to help administer/finalize a PILOT deal with no compensation given to the Memphis/Shelby County IDB staff for their time spent.

Efficiency

- Many applicant and other parties involved in the process have suggested that this process is time consuming and should be streamlined.
- Due to statutory constraints on the PILOT, the applicant must transfer land and personal property ownership to the IDB. This causes additional time and legal fees which applicants see as overly burdensome, especially in comparison to other states granting incentives. Although this is a function of state statute and not controlled by the City/County, it is an important factor in understanding both the ease and of doing

business in Memphis/Shelby County and the perception of the Memphis/Shelby County business environment.
- The overall attitude of the ED and/or IDB is seen as unfriendly to business. Instead of making the process easier for applicants, the ED/IDB is seen as looking for problems in achieving incentives rather than solutions to issues which arise.
- The current application/matrix allows a prospect to preliminarily complete the matrix and have a reasonable expectation of the length of the PILOT it would receive. The estimate provided by the matrix makes the program more appealing to prospects. However, recently some prospects which have relied on the estimate provided by the matrix have been disappointed when what they perceive as political reasons, the PILOT was not awarded on the projected terms.

Effectiveness

- The application/matrix does not take any type of "need" into consideration, whether it is a need to put Memphis/Shelby County on par with other locations or a need for financial assistance to make the project viable and/or economically feasible. As such, it is difficult to determine if the recipients would locate their projects in the area whether or not the PILOT had been awarded.
- The matrix takes the project location into account. While it awards higher points for projects within the City of Memphis, it does not target specific areas within the City. Some areas are more economically depressed and/or require additional costs for infrastructure and/or site preparation. By taking specific locations into account, it would encourage development in designated areas which are in more desperate need of development. This is crucial to Memphis/Shelby County area which has such diverse site location alternatives with very distinctive needs. For instance, a 50-year old warehouse in downtown Memphis or in a Memphis neighborhood that has experienced disinvestment and a downward trend in property values has different costs and challenges than a greenfield site located in Shelby County or a stable Memphis business park.

2. *Evaluation Process*

Overview

- ***The IDB*** uses a scoring matrix in determining the eligibility and length of a PILOT for a particular development. The scoring matrix considers the following factors: job creation, wages, capital investment, and project location.
- The ED prepares a staff report and recommendations on the PILOT terms to the IDB and the Mayors.
- The applicant is required to meet before the IDB and the IDB either approves the PILOT and stipulates its terms or denies the PILOT.
- Unlike the IDB, whose main qualifying criteria are that number of jobs a development will create, the ***CCRFC*** evaluates the economics/financials of the development project. Also in determining the eligibility and length of a PILOT, CCRFC takes into consideration the type and size of the development project, level of capital investment, architectural/ historic elements, and targeted locations in the downtown core. The primary mission of the CCRFC is to return vacant and underutilized property within the greater downtown area to a higher and better use and is not necessarily job based driven.

Efficiency

- In theory the IDB evaluation process is relatively efficient. The applicant completes the application and meets with the Board and is approved or denied based on the matrix. It can be determined rather quickly what the PILOT terms will be due to the formulaic nature of the matrix. However, business stakeholders perceive that political considerations have been increasing and outcomes are not as certain.

Effectiveness

- The IDB matrix does not allow for consideration of the projects on a case by case basis unlike the CCRFC evaluation. The formula to determine the PILOT terms does not take specific facts and circumstances into account when determining PILOT terms.
- The CCRFC evaluation process allows for enough flexibility where CCRFC can determine the appropriate level of public assistance on a case by case basis using general eligibility criteria guidelines, while also factoring in any extraordinary costs or specific development hurdles that a development project may face.
- The IDB evaluation criteria are strictly focused on the expected outputs of the company rather than the inputs needed to achieve the outputs. There is no consideration given to the site and land preparation, land assemblage, infrastructure costs, etc. which must be spent in order to achieve the job creation targets. These costs are not taken into consideration in the evaluation process at all.
- The matrix scores projects based on total jobs to be created as opposed to percentage increase in jobs. This favors larger companies as hiring a larger number of employees represents a smaller change in total employees. The current matrix provides no flexibility in awarding points on a different basis for "small" companies.
- The same absolute concept is used for the investment criteria. The points are awarded based on absolute dollars spent on capital investment, with higher capital spend earning more points, rather than an increase in investment. This also favors larger companies.

3. Project Information/Economic Impact Analysis

Overview

The ED performs a cost/benefit analysis on each project upon application to determine if the proposed project is beneficial to the City/County.

The analysis calculates the "forgone" property taxes and compares them to the benefit of the increase in workforce.

The current cost to benefit ratio required for the City/County is 1:1.

Efficiency

- The ED performs this function currently. It would be more efficient if the burden was placed on the applicant. The applicant is requesting City/County assistance and should be prepared to show what benefits it is bringing to the City/County.

Effectiveness

- The current calculation is incomplete with respect to benefits derived from the projects. It does not take into account the additional taxes- property tax and sales from additional employees, sales and hotel tax revenue from visitors, etc which would be generated directly and indirectly due to the new project.
- However a more complete cost/benefit analysis will always show a net benefit because it compares a subset ("forgone" property taxes) and compares it to a larger population (all

taxes and increased demand). As such, even with a more complete cost/benefit analysis the issue is whether this is the primary tool by which to judge potential PILOTs.

- A more relevant analysis would be determining if it is necessary to "forgo" the property taxes in order for the project and the resulting benefit to occur.
- The economic impact approach specifically lends itself toward evaluating the upside of a project rather than meeting the "but for" test. The economic impact approach lends itself for approval of more projects than necessary. With taking the "but for" test approach, we may be able to conclude that on any given project, the PILOT is not necessary.

4. Board Structure/Decision Making

Overview

- For the Memphis/Shelby County IDB, there are two PILOT committees which make recommendations to the IDB in regards to PILOT acceptance terms and default terms. These committees include:
    - **PILOT Evaluation Committee** and consists of the following:
        - Three members of the IDB Board, who are appointed by the IDB Board Chairman
        - Two City Councilmen *(One is the Chairman of the City's Economic Development Commission)*
        - Two County Commissioners *(One is the Chairman of the County's Economic Development Commission)*
            - *The two City Councilmen and County Commissioners were added to the committee in 2002 after the Community Reinvestment Areas were adopted, allowing PILOTs to be granted to 2nd generation buildings.*
        - This committee meets on a monthly basis if needed and makes recommendations to the full nine member IDB Board for final PILOT decision regarding acceptance and terms.
        - Board members have staggering board terms in A, B, and C categories. A board members have a 2 year term, B members a 4 year term, and C member a 6 year term.
    - **PILOT Performance/Assessment Committee**
      Consists of the following:
        - Three members of the IDB Board, who are appointed by the IDB Board Chairman
        - This Committee was created in 1999/2000 to address PILOT default issues and make recommendations to the IDB Board in regards to clawback/default procedure recommendations.
- The IDB reviews the PILOT application and makes and votes on approval/denial. The IDB consists of nine members and includes the following:
    - Four members appointed by the City
    - Four members appointed by the County
    - One member appointed jointly by the City/County
- Due to the increased involvement of elected officials on the IDB evaluation committee, less focus is being placed on the matrix, virtually the only available tool for prospects to use in estimating potential PILOT value.

Efficiency

- We have noted that the increased political presence from the City and County Councils makes the matrix system less efficient due to varying agendas.
- If there is an economic development plan, Memphis /Shelby County can begin to capitalize on some efficiencies built into the process by targeting specific industries/types of companies and specific areas of the City and County.

Effectiveness

- The decisions are made based on each application and matrix instead of a particular economic development plan/agenda. There is no focus to attract certain types of businesses or award certain industries PILOTs or to target certain areas.
- The decision making system would be more effective with a set of long term goals in mind. When there is a desired outcome, the decisions on specific PILOTs will become clearer. The IDB will have a better grasp on where to spend its limited resources.
- The ability to use a PILOT for building rehabilitation was made possible with the adoption of the CRCs in 2002. This legislation enable to expand the granting of PILOTs from new construction buildings only to also include 2nd generation buildings. This is critical in that maintaining and improving existing buildings and the elimination of blight is a key policy and legislative goal of any community.

5. Business Terms/Contractual Provisions

General Overview

We have observed that the PILOT contracts are very standard and don't substantively commit the private sector to maintaining operations. Memphis and Shelby County are being asked to be a financial partner in the project and are currently taking a very loose commitment for return on their investment. Additionally, the current contract language does not substantively protect Memphis/Shelby County's downside risk of the potential move of operations. Within recent years the IDB has taken a more proactive role in shortening the PILOT term or stopping any future PILOT incentive if a PILOT project is not performing up to its agreed performance measures.

PILOT Monitoring and Maintenance Provisions

<u>Overview</u>

- Once a company is awarded a PILOT it must achieve the job creation and capital investment goals stated in the contract.
- Companies receiving PILOTs must complete compliance forms stating their employment and investment amounts. The companies prepare and submit these reports to the ED. There is no third party verification or ED audit.
- Once the reports are filed, the ED compares the reports with the PILOT agreements. This process takes approximately 10 months to complete for all outstanding PILOTS.

<u>Efficiency</u>

- Scarce ED resources are not being used efficiently. The 10 month period to review the reports and compare to the agreements is not reasonable. This really can and should be done on a more real time basis with the implementation of an appropriate system.

Effectiveness

- PILOT monitoring is on an honor-system. The PILOT recipients basically self-audit. There are no controls in place to ensure that the information reported by the company is accurate. Worst case scenario, this creates an opportunity for companies to misrepresent jobs and/or investment. Best case scenario, this sheds an air of skepticism on the reports. It creates an idea that companies *can* inflate hiring. In an environment in which the PILOT program is under such scrutiny, the lack of monitoring undermines public confidence in the program.
- A third party verifying the company's records and attesting to compliance with PILOT agreements would be more reliable and would put less of a burden on the ED. It would also help the PILOT program's negative perception problem.

6. Competitiveness of the Marketplace

Overview

- Memphis/Shelby County is in a more competitive environment than many sites across the US since it is so close to bordering states with different business climates, tax structures, and incentives. A map illustrating the location of Shelby County relative to these local competing markets is included in Appendix G of this report.
- Based on the cost of doing business analysis, Memphis generally has a higher cost of doing business than the competing markets included in the study. A map illustrating the locations of the competitive markets analyzed for this study is included in Appendix H of this report.

Efficiency

- Due to Memphis' location and the relatively high cost to operate a business in the Memphis area, incentives to attract business to the area are crucial for Memphis' survival. The younger, more available market of DeSoto County is mere miles away- close enough to take advantage of the same benefits of Memphis without Memphis' high rents and property taxes. Without a reduction in business operation costs, Memphis cannot remain competitive.

Effectiveness

- Memphis does not have a clear definition of goals with respect to what kind of projects/ industries it is trying to attract. Memphis has historically been marketed as a distribution center, but in recent years has trended away from the distribution facilities. The incentives in place need to be more focused on the specific type of project/industry Memphis wishes to target.

7. Policy

Overview

- PILOTs have been used for a range of development projects- all sizes of companies and all types of industries, with no particular focus.
- The average length of PILOTs has been 6-7 years, with a maximum of 15 years.

- PILOTs have been used in practically all geographic sections of the Memphis/Shelby County area- downtown Memphis, the outskirts of Memphis, and unincorporated Shelby County.
- In recent years, the trend has been to approve shorter PILOTs with stricter requirements.

Efficiency

- Memphis/Shelby County loses efficiencies since the PILOT program is not targeted toward specific goals. If the City/County had a particular set of guidelines when targeting a specific industry, it would gain efficiencies in each targeted industry.

Effectiveness

- While it is important to diversify any economic region, it is also important to have a particular goal in mind. Working without an economic development agenda has led the IDBs to award PILOTs on an ad hoc basis, with no particular larger development goal in mind.

8. The Broadening of Services/Additional Programmatic Funding Sources

Overview

- The PILOT program is, for all practical purposes, the major redevelopment and economic development tool that is used in the Memphis region. This is largely due to the fact that the Tennessee legislature has not allowed for additional business incentives that meet the needs of today's highly competitive environment. Henceforth, the use of the PILOT program has evolved into the only solution to redevelopment and business attraction efforts of the City and County.

Efficiency

- The economic development staff has become administrators of the PILOT program rather than business attraction or redevelopment specialists.
- This application for the PILOT is very detailed and not exceptionally applicable to any given project. Therefore, staff focuses much time on getting applicants to meet relatively esoteric criteria.

Effectiveness

- The PILOT program currently is being used to address such needs as up-front site assemblage, remediation, general extraordinary costs, job training issues, etc. The financial effect PILOT program is not geared towards addressing these problems, and therefore, not very effective in solving those very real business issues.

II. Recommendations

1. Procedure and Application

The current evaluation process is very decentralized and based upon esoteric criteria and lend themselves toward approval of projects which do not necessarily merit a public investment.

This whole process should be refocused and streamlined into more direct project evaluation criteria. The onus for showing need for the PILOT, or any other business incentive, should be put onto the private sector entity (company, real estate developer, etc.) to show the need in terms of amount and timing of the public contribution that is necessary to complete the project. In addition, the ED staff should be in the role of reviewing the submission, rather than receiving a request and justifying the request themselves.

A general set of guidelines should be established for the review of each proposed project, with the understanding that the guidelines are flexible. Each proposed project must stand on its own merits. No one set of general guidelines is meant to fit each situation. The ED staff's professional judgment including review of policy considerations, the project's tangible and intangible benefits, and quantifiable benefits, must prevail given the specific deal facts.

Therefore, we recommend the following:

- The idea and process of preparing an economic impact analysis and evaluation matrix as the sole measures of whether to grant a PILOT should be abandoned.
- A general and very flexible framework, based upon business and market criteria, should be developed.
- City staff should review each deal under the auspices of the guidelines, but a good deal of professional judgment should be allowed for projects that do not fit the guidelines ultimately implemented.
- The onus of responsibility of justifying the need for public assistance for each project should be shifted to the private sector.

Compensation for Memphis/Shelby County IDB Staff Utilization
In addition to the above recommendations, the administration of suburban Shelby County PILOTs should be restructured, where the PILOT closing costs revenues should be shared between the suburban IDBs and the Memphis/Shelby County IDB, if Memphis/Shelby County IDB staff assistance is needed to administer and finalize the deal. Currently, the suburban IDB's retain all the closing cost revenues and no compensation is granted to the Memphis/Shelby County IDB to cover staff costs that are expended in administrating suburban PILOT deals.

2. Evaluation Process

Realignment of Analysis
Memphis/Shelby County needs to completely refocus the evaluation criteria used to determine how PILOTs are awarded. There is currently not a "but for" test established or considered when approving or disapproving specific projects for a PILOT. This, for all practical purposes, means that the City/County or other approving bodies may very well have been giving away tax revenue unnecessarily as opposed to gaining taxes, albeit, a smaller portion than the total.

We recommend that the City require all requesting entities to provide a "Gap Analysis". This is a financial analysis that shows financial returns to the requesting entity with and without the public assistance. The analysis is typically shown in leveraged or unleveraged rates of return to the requesting entity. This type of analysis is not the only method which can be used to determine the financial gap. Common methods are the rate of return analysis or using pay-back periods. Any other management measure of investment that is germane to the requesting entity is an acceptable method. It will then be up to the requesting entity to justify why it needs a higher rate of return than it is currently achieving with no public assistance.

Example:

- Real Estate Investment – Unleveraged Rate of Return – No City Assistance – 9.5%
- Real Estate Investment – Unleveraged Rate of Return – With City Assistance – 13.8%

Potential justification – The current market for unleveraged rates of return, as determined by the large institutional investors for this type of development is 13.5%. Because the developer in this hypothetical case is receiving a 9.5% rate of return, or a below market return, he probably will not invest in the project unless he underwrites his investment economics to a market based level. This is a very typical and well received justification for municipal assistance.

The establishment of a "but for" test is the whole premise of any public investment or the need for it from a logical, moral, and legislative standpoint. Most, if not all, business incentive programs across the country imply a "but for" test in their intent and enabling legislation. However, we do not believe that the "but for" test needs to be bright-line, that is without public investment this or any project absolutely will not occur. <u>Rather a more appropriate interpretation of the "but for" test is that private investment is not reasonably anticipated without public investment relative to this specific proposed project.</u> It is not reasonable to hold any private sector entity to the absolute "but for" test- that no development at all will occur on the site without public investment. That is an impossible test to meet.

Competitive Cost Analysis Approach
Another form of a gap analysis is a competitive cost analysis. Corporations when considering locations first determine whether a new location is warranted, that is whether to invest or not invest (classic gap analysis approach). After this decision is made, a location must be chosen. In today's highly competitive marketplace, the lowest cost alternative usually has a very big advantage in determining the location which will be selected. Many factors play into the cost picture. The major cost categories include labor, logistics, land and building economics, taxes and business incentives. Taxes and business incentives are not a sole determining factor, but are a consideration.

Therefore, another form of the gap analysis is for a company to show that other sites that they are considering are less expensive than in Memphis/Shelby County. This analysis should show how much the cost to operate in Memphis/Shelby County needs to be lowered for the company to be competitive in the other markets (i.e., a financial gap). If Memphis/Shelby County's cost picture is higher than other locations (which may be the case), a justification by the company of the comparative costs analysis should be requested.

Benefits of a Gap Analysis Approach
The gap analysis approach provides justification to elected officials of why a public investment is necessary to stimulate private investment. Additionally, this financially based approach gives the

ability to demonstrate how much City/County contribution is necessary and at what point in the project it is needed. The current method, as promulgated by current policy, is really a "one size fits all approach". Some projects may require a front-end loaded PILOT to defray start-up expenses. Any permutation of need should be able to be addressed by the inherent flexibility of the PILOT program. This is currently not the case.

The gap analysis approach will provide a tangible and quantifiable means to satisfying the "but for" test as well as tailor the City and County's programmatic and discretionary funding sources to each individual project.

3. Project Information/Economic Impact Analysis

Project Information
When a private entity requests assistance from a public entity, this is really no different than trying to attract either another equity participant or debt lender. Therefore, an "open book" policy should be adopted by each party, especially the requesting entity. All books and records, pro-formas, and project details should be made available to the granting entity. We recommend that any requesting entity provide the following information as part of the formal request:

- Financial pro-forma financial analysis or competitive cost analysis (gap analysis as described above)
- General project overview
- Number of full-time jobs created
- Number of part-time jobs created
- Number of full-time jobs retained
- Number of part-time jobs retained
- Wage levels of all jobs/employment proposed to be created
- Site description
- Detailed construction costs (real property)
- Detailed list of capital expenditures (personal property)
- Long-term commitment and project timing
- Description of specific site and its challenges and opportunities
- Market and time considerations
- Sources and uses of funds
- Pro-forma income and expense for project (note - leveraged from gap analysis above)
- Financial commitments (private equity and debt)
- Ownership structure (disclose names of all owners of requesting entity)
- Evidence of site control or description of process of obtaining site control
- Narrative explanation and quantification of economic impact and public benefits and/or costs of project
- Other public incentives granted and/or being pursued
- Other as necessary

It should be noted that each project or deal is different and not each category will apply to each individual project. This list should give a good guideline as the information required from each requesting entity. If something is not applicable, we believe it is up to the requesting entity to explain the rationale.

Economic Impact or Public Benefits of Project
We certainly believe that showing the economic impact and/or public benefits of a project is important. It should be a consideration, but not be a primary determining factor of whether to grant a PILOT request. There are going to be many projects that have positive economic impact and don't need a public investment for them to occur. Therefore, we have included the economic impact as part of the information request to the requesting entity. Our recommendation is that it should be up to the requesting entity to demonstrate the economic impact and public benefits of its investment. This should be considered a public/private partnership, wherein, the entity is requesting a public partner. The entity needs to incorporate that into its thought process and justify that to the City/County – a potential investor.

4. Board Structuring/Decision Making

Board Structure
There has been the perception of increased political pressure on the IDBs from the elected bodies to take certain action at various times. We recommend that the board structure and decision making authority be changed and streamlined. From a macro perspective, elected officials are put in place as representatives of their constituents and make decisions on their behalf. Therefore, we recommend that the IDBs including *CCRFC, MHEHF, SCHEHF,* and any other entities that grant PILOTs, become an advisory board and the elected boards (City Council and County Commission) become the actual granting agencies or final decision makers. In order to make that an efficient process, this can be effectuated in a cornucopia of structures. A few examples of how this can work follows.

- The IDBs and other current PILOT issuing entities function as an advisory board. Each IDB/PILOT issuing entity makes a recommendation of approval or disapproval to the elected boards for their subject projects, and the elected boards vote on approval or denial of the PILOT. Practically speaking, all PILOT requests can be done on a consent agenda item on a periodic basis.
- IDBs/PILOT issuing entity have initial decision making authority. IDBs/PILOT issuing entity takes a vote on approval or denial of the PILOT request. The elected boards can overturn the IDB/PILOT issuing entity's vote with a super-majority. When using this structure, the super-majority vote to overturn is usually a two-thirds (67%) majority.
- The City Council and County Commission have decision making authority. Assuming a congruency of goals between the City and County, it is recommended that Memphis City Council would have decision authority over projects located in the City of Memphis and the County Commission would have decision authority over projects located in unincorporated areas of Shelby County. Such an arrangement would help streamline the overall PILOT approval process.
- Another option is to keep the IDB Board structure and other PILOT issuing entities, however, create one main PILOT Board with all approval power over all PILOTs and set sub-boards for recommendations on individual projects. Those recommendations can then be effectuated at the overall PILOT board level as a consent agenda item or a super-majority to overturn the recommendation of the sub-boards.

There are many combinations and permutations of these structures that can be undertaken. However, these types of structures usually make for a very streamlined and effective decision making process wherein the experts (IDB board) is reviewing each and every deal and elected boards have final vote. Additionally, this type of structure lends itself towards cohesive policy and application of the public incentives granted. The potential for varying goals and conflicts in agenda is reduced with these types of structures.

Flexibility
The current PILOT program and related policy is geared to be a "one size fits all" type approach. It is our distinct belief that each project is unique in its opportunities and challenges, and therefore the current PILOT program does not meet the needs of every project. This lack of flexibility has made it difficult to get certain projects done (such as residential housing projects) and has possibly awarded more public money than needed on other projects.

Our recommendations are as follows:

- Allow for a 0 – 20 year PILOT at the discretion of the approving board, with the sign-off of staff before the board votes on the project.
- Allow for a 0 – 100% PILOT at the discretion of the approving board, with the sign-off of staff before the board votes on the project.
- Allow for increased benefit in targeted areas, such as in areas where it can be documented that there has been a downward trend in property values.
- Set up a structure where all or a portion of PILOT payments and application and closing fees can be paid into a special allocation fund and securitized in the municipal debt marketplaces. (In particular for those projects that have a financing issue and need real cash into the project economics to make it work.)
- Allow for the use of a PILOT in rehabilitation of existing buildings in all cases to be evaluated on a deal by deal basis.

The City/County's ability to attract the companies, projects, and real estate developments that it desires is directly contingent on your ability to make the right deal. The City/County should not invest a nickel more than it has to and not a nickel less than it has to make a project occur in Memphis/Shelby County.

5. Business Terms/Contractual Provisions

We do not believe that there should be a standard contract that should fit every situation. Alternatively, each project should be negotiated individually and individual business terms should be set forth.

Therefore, we recommend that a term sheet be drafted by the City and given to the requesting entity to review, comment upon and discuss. The term sheet is just that, a document that states the business deal details in easy to follow terms. Once that is agreed upon by all parties, a PILOT agreement can be memorialized.

Considerations in the PILOT agreement can be as follows:

Incorporation of claw back or liquidated damage provisions. If a company moves out during the PILOT period, a claw back or liquidated damage provision may be incorporated to protect the investment of the City and County. An example of such a contractual provision is as follows:

Commitment to Operations Company will commit that the operations will remain in the City for the term of this agreement. If Company decides to move its operations before the term of this agreement expires, payment will be made according to the following:

- Within months 1-60 – A one-time lump sum payment of $100,000
- Within months 61 – 120 – A one-time lump sum payment of $75,000
- Within months 121 – 240 – A one-time lump sum payment of $25,000

These payments will not apply under a default of the contract if considered a Fault of the City or County or considered as Force Majeure conditions.

Dark Day Provisions

This applies to real estate developments. Dark day provisions provide that if a real estate development falls under a certain level of occupancy, the PILOT payment will be suspended.

Commitment to Create and Retain Jobs

One of the major benefits to the City/County of any corporate project is the creation of jobs. Therefore, it is very reasonable to contractually commit requesting entities to create the employment that they are representing and maintaining a percentage of those jobs for the term of the agreement. Keeping in mind that fluctuations in the economy over the life of the PILOT can impact employment levels, this can be handled one of number of ways. Two that make a good deal of sense is (1) to prorate the PILOT level for each job and reduce it by any decrease in employment or (2) commit the company to a certain percentage of the jobs they represented and when they fall below that amount the whole PILOT is taken away. This alone is the current policy of Memphis as noted below. However, the recommended change is to "claw back" incentive rather than just stop the PILOT on a going forward basis. Typical retention percentages range from 75% - 90% of the initial jobs as it relates to other business incentive agreements in other areas of the country.

Currently, the commitments to create and retain jobs must be achieved within 80% in two years or the PILOT is in default and the recipient no longer receives benefit. However, the PILOT recipient is responsible for annual employment reporting. Instead, the recipient should obtain third party verification that it is in compliance with its PILOT agreement. In many other jurisdictions, third party audits are conducted when incentives are granted.

Monitoring and Maintenance

We recommend that each entity that has been granted a PILOT provide an annual report that delineates relevant economic information about their operations. This report should be verified by an independent source (like a CPA firm). This, of course, can be done during the companies normal audit procedures or as needed. This is not uncommon at all. Many other states and cities require this as part of annual reporting requirements.

The overall picture of this recommendation is that there needs to be a good degree of accountability amongst the partners of the deal. Remember, the requesting entity is asking you to be a financial partner in their project – this request is perfectly appropriate among partners.

6. Competitiveness of the Marketplace

Because the Memphis area market is so competitive being located in such close proximity to bordering states regularly offering generous incentives and a lower business cost structure, time is an important factor in the PILOT process. The PILOT process should be streamlined and pared down for efficiencies and greater benefit as we have delineated in this report. For instance, DeSoto County has a much simpler and quicker time frame in dealing with prospect incentives. This gives DeSoto County a competitive advantage in attracting new companies.

In addition, competing markets offer various incentives and more flexible financial assistance as compared to Memphis/Shelby County. These markets are able to meet the needs of prospects in many different ways. Memphis/Shelby County needs to adapt its business and economic development incentive system to be able to do the same. Many times projects will require up-front funding and/or a different mechanism in order to be feasible. The PILOT program alone cannot solve every issue.

7. Policy

Most importantly, the City and Shelby County should create an overriding policy to include: 1) what types of businesses should be attracted, retained and thereby induced via public investment; and 2) where these businesses should be encouraged to locate and invest to achieve the greatest social benefit. To date, the policy of the City/County has not been cohesive or proactive, rather, it has been reactive to businesses applying for the program.

The City/County should actively be marketing to the types of businesses that are desired and actively attempting to create projects and business deals rather than waiting for a business to be interested in the Memphis area and apply for the incentive programs.

In doing this, it is of utmost importance to come to consensus on the various types of industries/businesses that are desired. This process, not being too dissimilar from the Master Planning process for land use, should concentrate on Memphis' strengths and weaknesses, its current labor force, demographics, inventory of companies, and other relevant factors. The biggest factor to agree upon and thereby determine is – "what is the long-term vision for the Memphis/Shelby County area?"

We recommend a series of "summits" with a select group of elected officials, community leaders, business leaders, and key stakeholders. The purpose of these meetings is to be able to vet out key issues, opportunities, and visions for the community as a whole. We believe that any long-term policy should include the input of the key business, civic, and government leaders. This also will have the effect of bringing consensus and consistent direction to this program and overall Economic Development efforts of the region.

In order to facilitate a discussion around these policy considerations, here is a brief overview on various types of industries and policy considerations.

- Manufacturing – Generally brings in outside money into the marketplace. Many argue that manufacturing is the core of the world economy in that goods have to be made and brought to the marketplace. Additionally, this type of job can provide a good living wage for a person of average to medium education (high-school to vocational education), which makes up a majority of the American workforce. From a policy perspective, can be very desirable for any urban economy.

- Distribution – Generally provides lower end jobs for the unskilled worker. Average wages are generally less than that of manufacturing. Nonetheless, this type of employment has a place in a regional economy. The policy consideration here is whether Memphis/Shelby County has too much raw distribution. Distribution can also serve to bring other industries to the area when the area is considered a distribution hub.

- High-Tech Manufacturing – Provides for the skilled worker higher end employment and above average wages. The key to attracting high-tech manufacturing is providing a skilled workforce via existing "stock" or very targeted workforce training programs. These are typically very highly coveted jobs and in a very highly competitive environment.

- Professional – Doctors, attorneys, accountants, etc. typically have a good impact on the economy. These are highly educated, highly paid and have excellent buying power. These companies are typically a follower to the more core companies to an economy (manufacturing, distribution, etc.). These professional service companies provide value added services to transactions that core companies are contemplating.

- Residential Housing – It is our opinion that housing is a key to economic development. Without good housing stock, safe neighborhoods, and a good living environment, it will be difficult to attract any type of company that pays competitive wages. One of the key considerations for company relocation is executive lifestyle comfort. Providing public investment in housing developments is critical to the long-term success of Memphis' economy. This investment usually comes in the form of a public investment relative to the land and building economics. Therefore, the investment in residential housing usually needs to take the form of an up-front subsidy to offset any extraordinary costs of development.

- Retail – Retail is a follower. Where there are people and buying power (household income), retailers will follow. Therefore, careful consideration should be given to induce retailers with public investment. However, retail is an important part of any economy from any econometric measure, not to mention the sales tax generator for the City/County. There is an appropriate place to publicly invest in retail developments – that is in the land and building economics. When there are extraordinary site constraints and in turn extraordinary costs, the real estate community may not be able to feasibly make the land and building economics work to develop and lease a retail site. Again, development would not occur without public investment. As such, public investment is very appropriate for a retail development to overcome such site development issues.

Relative to residential housing and retail, it is especially important to create the needed flexibility into the PILOT program to be able to bring public money into a project up-front during the construction period. This will be especially true in downtown and core areas of the City when residential and retail are proposed.

8. The Broadening of Services/Additional Programmatic Funding Sources

Economic development within Memphis and Shelby County could be more effective if the role of the IDB or Economic Development Department were widened. Currently, its primary role of the IDB staff is very administrative in terms of processing and monitoring PILOT applications and performance. The IDB/Economic Development staff could be more effective if it could engage in activities similar to the Center City Commission (CCC), where it could acquire and assemble land and play a more active role in facilitating redevelopment in the Memphis area. Currently CCC funds land acquisition through various sources (City, County, PILOT fees, DT Parking Authority, and CC finance loans).

Currently the PILOT program is the only program of significant economic substance that Memphis/Shelby County can offer. There are significant needs for the public investment in other areas of need such as land and building economics, workforce training, income tax cost, and utility costs.

We recommend that Memphis/Shelby County promulgate new policy and new ordinance and/or legislation to provide for a menu of programmatic funding sources that can be used to address needs on point (i.e., a PILOT is not the proper public subsidy when workforce training or up-front infrastructure is required).

SECTION 2: ***ECONOMIC IMPACT ANALYSIS***

Objective

The objective of this phase is to quantify and evaluate the total economic impacts of past and current PILOT projects to help determine the benefits and effectiveness of the PILOT program. This analysis will help determine the short and long-term positive and negative impacts and consequences of PILOTs on the City and County tax base and government operations.

For this analysis three industrial PILOT projects and one multi-phased corporate headquarters PILOT project were selected to examine in detail over a 20-year period plus the construction period, as agreed upon by City and County staff. The selected PILOT projects represent a wide variety in terms of PILOT length, number of PILOTs, project outcome, project location, age, project type, and PILOT terms. The inclusion of these variances into the analysis enables the Consultant Team to evaluate how these differences have positively and/or negatively affected the total impact. The four selected case studies include:

1. **Prime Automotive Warehouse**, PILOT 2000 – 2002, business moved to DeSoto County, MS in 2005
2. **barnesandnoble.com Distribution Center**, PILOT 2000 – 2009, clawback enforced shortening term to 2007.
3. **Medtronic Corporate Headquarters and Distribution Center**, multiple PILOTS issued between 1993 and 2002
4. **SFI of Tennessee, LLC** (SFI) manufacturing facility, PILOT August 21, 2002 – January 1, 2009

Methodology

The economic impacts were generated using a proprietary economic impact model developed specifically by the Consultant Team. The indirect employment and output impacts detailed later in this section were generated using accepted U.S. Department of Commerce multipliers. In this model, multipliers specific to Shelby County, TN were used for construction, warehousing and storage, fabricated metal product manufacturing, and professional, scientific and technical services.

The cost/benefit analysis for each of the case studies involved analysis of the following areas:

- Construction Impacts
- Operational Impacts (Contribution to GDP and employment)
- Fiscal (tax and public incentive) Impacts
- Employee Spending Impacts
- Visitor Impacts
- Multiplier Effect (indirect employment and contribution to GDP)

The analysis for each of the case studies is based on historical and forecasted performance of the development projects. Such performance data was collected through a combination of the following sources:

1. Interviews with PILOT companies
2. Shelby County Assessor's Office
3. Annual PILOT Performance Reports and PILOT Applications
4. City/County/IDB staff

In instances where primary data/sources were not available, development assumptions were supported by secondary data from real estate, hospitality, tourism and economic research organizations.

Findings

The following impacts of the historic and forecasted development of each of the case studies within its PILOT term and over a 20-year operations period and construction period are detailed in this report:

Shelby County's Economic Impacts
Shelby County/City of Memphis Fiscal Impacts
City of Memphis Fiscal Impacts *(as a portion of Shelby County/City of Memphis Fiscal Impacts)*
State of Tennessee Fiscal Impacts

Detailed tables of the findings listed below for each of the PILOT case studies are provided in the appendix of this report, which include the following:

Table 1: Summary of Economic Impact, Shelby County, TN
Table 2: Summary of Fiscal Impact
Table 3: Construction Impacts
Table 4: Real Estate Property Taxes of PILOT Project
Table 5: Personal Property Taxes of PILOT Project
Table 6: Direct Employment and Earnings
Table 7: Direct and Indirect Output from PILOT Project
Table 8: Retail Sales Impact – Direct Employment
Table 9: Retail Sales Impact – Indirect Employment
Table 10: Visitor Spending
Table 11: Residential Property Tax Impacts from New Direct Employment
Table 12: Estimated Franchise Tax Revenues

Assumptions

Detailed tables of the assumptions used for each of the PILOT projects are provided in the appendix of this report. Discussed below are the larger impact model assumptions used for all of the case studies.

Real Estate and Personal Property Taxes of PILOT Project

To fully understand the tax impacts of the PILOT program, the impact model was designed to quantify the following in terms of real estate and personal property taxes of each of the PILOT projects:

1. The full assessment and real/personal property taxes that would have been generated for the City and County if no PILOT was issued.
2. Past and forecasted PILOT payments to the City and County.
3. Amount of past and forecasted public incentive granted by the City and County with the issuance of the PILOT.
4. Total PILOT payments and property tax revenues generated within a 20-year period.
5. In estimating future real estate property tax values, it was assumed that property would appreciate at a conservative 2% annual inflation rate, realized on a quadrennial reassessment basis.
6. In estimating future personal property tax values, the model takes a conservative approach in assuming that personal property is not replaced over the 20-year period and is taxed at the lower residual 20% value during the property's later years as compared to a higher residual value if the property was replaced on a more frequent basis. However, this was not assumed for the three Medtronic PILOT buildings at Pyramid Place. For these buildings, future personal property tax revenues were based on a personal property replacement schedule as estimated by Medtronic and the IDB.

Direct Employment and Earnings

New Employment
For all of the case studies except for SFI, employment/earnings impacts were only quantified for the ***new*** employment generated by the PILOT project. If the project is an expansion project, only the newly created jobs were factored into the model to calculate overall increased fiscal and direct/indirect economic impacts. To keep the model outputs conservative, the retained employment/ earnings are documented in the model but were not used to calculate the projects' overall fiscal/economic impact on the community since it can be argued that public revenues generated by retained employment would not be considered "new" revenue.

Retained Employment
However, given the increasing competitive markets in the surrounding areas, it should be noted that in specific cases, the issuance of PILOTs for expansion projects can be critical in retaining company operations and employment within the local area, which is often more important than creating new jobs. For instance, if a community loses a major employer(s) due to economic difficulties or competing markets, the assessed value of the subject property(s) can decline, reducing property tax revenues to the community, as well as a loss in potential retail spending and residential property tax revenue as unemployment increases.

SFI Case Study

For the SFI case study, the employment impacts for both the retained and newly created jobs were quantified since this project involved the acquisition of the bankrupt company, Southern Fabricators. The PILOT helped enable SteelWarehouse of South Bend, IN to purchase Southern Fabricators, creating SFI, which retained the existing 230 employees as well as creating over 150 new jobs within its first three years. It was important to quantify the impacts of these 230 existing jobs since they would have been eliminated from the Memphis area if this acquisition had not occurred.

Local Employed Residents
The model also factored in what percent of the direct employees are residents of Shelby County and the City of Memphis to better quantify the impact on the local economy. As research indicates, the economic impact to the local area is greater if local residents are employed since the community will benefit from their increased spending in the area and increased property values as demand increases over time.

Prime Automotive Warehouse Case Study

In January 2005, Prime Automotive Warehouse relocated from Memphis, TN to DeSoto County, MS. In spite of this move, Prime Automotive indicated that approximately 65% of its current employees still reside in Shelby County and that the company relocation has not affected employee residence decisions. To help illustrate the level of impact a company's relocation to a nearby competing market (i.e. DeSoto County) has on Memphis/Shelby County, the model estimates the level of retail spending in Shelby County by these current Shelby County residents in spite of their employment relocation. Even though Memphis/Shelby County are no longer benefiting from Prime Automotive's property taxes, these local governments are still receiving local tax revenue from local employee retail spending and residential property taxes, helping to minimize the negative impact of company relocation to DeSoto County, MS.

Retail Sales Tax Revenue

Shelby County Resident Employees
Taking into consideration that people generally do the majority of their shopping near where they live, the impact model only calculates retail sales for the direct and indirect employees who reside in Shelby County. It is assumed that non-Shelby County residents will most likely be spending the majority of their disposable income outside Shelby County and this sales tax revenue should not be counted in the model. In addition, the model is conservative in assuming that 60% of the Shelby County resident employees' general retail purchases will occur in Shelby County, taking into account vacations, destination shopping outside of Shelby County, etc. and that 100% of their grocery sales will occur in Shelby County.

Employee residence assumptions were based on interviews with the subject companies and current (2005) employee place of residence data by zip code provided by the subject companies.

Retail Spending Assumptions
The level of retail spending is based on average annual employee income and the Bureau of Labor Statistics' Consumer Expenditure Survey. This survey estimates average annual expenditures by retail category for households within income ranges and geographic areas.

Revenue Estimates – County Level Only
The model recognizes that there are many local municipal governments within Shelby County that will receive sales tax revenue from employee spending. Due to the difficulty of accurately estimating where this spending will occur throughout the County and taking into consideration the varying tax rates of the different municipalities, the model uses the combined historic and current tax rates of Memphis and Shelby County to estimate the amount of tax revenue to be generated throughout the County. Not enough data is available to accurately estimate sales tax revenue by individual municipalities within Shelby County. Therefore, it should be noted that the *Total City of Memphis Public Revenues* and *"Net Gain" in City of Memphis Revenues* is likely underestimated, since the sales tax revenue from employees, visitors, and construction could only be calculated at the County level and not at the City level.

Visitor Spending

The four PILOT projects being evaluated represent varied types of businesses that generate different levels of visitation. For instance, the three distribution operations, *Prime Automotive Warehouse, barnesandnoble.com,* and *Medtronic's* distribution facilities generate little to no business visitation that would require hotel lodging and travel spending. However, businesses such as Medtronic, which is a corporate headquarters and surgical training location in Memphis, generate significant business visitation from customers, suppliers, trainees, and other corporate employees.

The level of annual visitation for each of the PILOT projects was based on interviews with key stakeholders from the subject companies, supplemented by research data on annual Memphis area corporate transient hotel bookings and visitor spending from the Memphis Convention and Visitors Bureau.

Residential Property Tax Impacts from Direct Employment

The model takes a conservative approach by only quantifying the residential property taxes from homes of new employees who transferred from outside the area. It is assumed that employee transfers would generate new residential property tax revenues to the City and County. The residential property taxes of the new employees who were already residents of the City or County were not factored into the model, since these property taxes would not be "new" revenues to the City or County. However, these new jobs offered by the PILOT project to existing Shelby County residents may allow a household to keep their home, upgrade to a larger home or become a home owner, which could increase the City's/County's property tax revenues. Due to the difficulty of accurately calculating this potential increase in revenue from existing residents, the model only calculates the revenue impact from new employees who transferred to Shelby County for employment.

According to the 2000 US Census, 63% of households in Shelby County and 56% of households in the City of Memphis are owner-occupied households. The model assumes 90% of the employees transferring from outside the area will be home owners. Based on interviews with the representative companies, a higher percent is assumed as compared to the census, since employee transfers are typically offered higher level positions and incomes, which often correlate to home ownership. It is often not necessary or economically feasible to hire transfer employees for lower paying jobs, which typically tend to be the renter market.

In calculating residential property taxes, the model assumed average Memphis area home prices as reported by the Memphis Area Association of Realtors.

Franchise Tax Revenues

The State of TN franchise tax is based on the greater of net worth or the book value of real or tangible personal property owned or used. This model estimates past and future franchise tax revenues based on the book value of real and tangible property since net worth of the company is not readily available for this study. Please note that these are only estimates given the available information.

Public Costs/Public Incentive

It is a difficult task to accurately estimate public costs to a specific development project since most public services are provided to the entire residential and business community. Typically, a new development project alone would not trigger increased public service costs because these services are offered to the wider area and the current service level generally can support new development within this service area, such as police and fire protection. It is not until an area gets built to a point which pushes the threshold of these services where additional police officers are needed to be hired or additional fire department equipment needs to be purchased to adequately service the area. It is extremely difficult to determine which projects push this threshold, requiring increased public services, such as additional police officers and firefighters, a new school, increased bus service, etc.

It is important to note that since Memphis and Shelby County already have an established and wide network of public services and infrastructure, interviews with City and County staff indicate that the development of one project would likely not increase public costs to provide general public services to the business and its employees. However, if all of the PILOTS granted over recent years are taken collectively, there is a potential for select public services and infrastructure to reach certain thresholds and require increased costs. Such an "overall" analysis on the impact of all PILOTs on public costs is outside the current scope of this project. For the purpose of this study and the analysis of the four select case studies, we assume the public costs are the granted PILOT incentives.

Land Use Impacts

There have been many studies completed in the past which have attempted to answer the question of whether or not growth pays for itself in local government fiscal terms, or net revenues. There is still much debate over this question with researchers coming to different conclusions. However, there is strong consensus that there is significant variation in the cost-revenue effects of different types of land uses. Uses such as office, industrial, warehouse, retail, and small one-and-two bedroom high-rent multifamily housing typically generate a net fiscal surplus since they place below-average demands on the school system and housing assistance, health care systems, and other social services. While uses such as lower-rent apartments and larger housing units tend to place above-average demands on education and social services, resulting in a net fiscal deficit.

While recognizing the different fiscal impacts of various land uses, it is important to understand the complex interactions among various types of land uses as growth occurs. For instance, an industrial development may in itself generate a net fiscal impact. But it may only be creating jobs at low wages, increasing the demand for low-to moderate-income housing and thus causing a net fiscal burden. Conversely, a new residential development may produce a net direct cost but the increased residents in the area could provide increased customers for businesses, increasing business sales and underlying commercial property taxes. Therefore when evaluating the overall impact of a proposed development, it is very important to consider all the elements involved, such as workforce characteristics, salary levels, health insurance/benefits, infrastructure demands, etc since the overall fiscal impact of one kind of development depends on the interaction of industrial, commercial, and residential land uses over time.[1]

Utility and Telecommunications Tax Revenues

Please note that utility and telecommunication tax revenues were not included in this analysis. It was found that these revenues were immaterial as compared to the tax revenue categories described above. In addition, due to the numerous utility taxes with various tax rates for commercial and residential properties, as well as maximum tax thresholds for individual properties, it would be difficult to accurately estimate past and future utility tax revenues generated by the individual PILOT companies.

Excise Tax Revenues

The State of TN excise tax revenues are generated from 6.5% of Tennessee taxable income from businesses operating in TN. Since company income data was not available for the subject PILOT companies and could not be accurately estimated, these state revenues were not included in the impact model.

Net Present Value (NPV)

In calculating the NPV of revenue streams over a 20-year operations period, as well as during specific PILOT terms, a discount factor of 5% was used. The 5% NPV discount factor is based on the trend interest rates paid by Shelby County and City of Memphis on their General Obligation Bonds between Years 1991 and 2004 as reported in each of the governments' 2004 Comprehensive Annual Financial Report.

[1] J.Thomas Black and Rita Curtis, he Local Fiscal Effects of Growth and Commercial Development Overtime", *Urban Land*, January 1993.

Prime Automotive Warehouse, Inc.

Project Description and History

Prime Automotive Warehouse, Inc. (Prime Automotive) distributes auto parts and accessories to independent retail dealers. The business began in Memphis in 1982 with seven employees and a 16,000 square foot facility. In 1992 it moved to 5830 East Shelby Drive, expanding to an 84,000 square foot facility and grew its employee base to 30 by 2000. By 2000, Prime Automotive had outgrown its space again and needed to expand to a 120,000 square foot facility located at 5404 Hickory Hills Road, #101, which is part of a new 128-acre park that was being developed at Holmes and Hickory Hill Roads. This facility was located in unincorporated Shelby County and then later annexed into Memphis in 2003. For this expansion, Prime Automotive secured a 3-year PILOT from the Memphis and Shelby County Industrial Development Board (IDB) on both real and personal property between December 31, 1999 – December 31, 2002. As part of the PILOT agreement, Prime Automotive committed to creating 15 new jobs at an average annual salary of $24,600 and investing approximately $2.59 million in real property and $122,000 in personal property.

Performance
For the three years of the PILOT, all capital investment commitments were met. Employment and salary commitments were met in the first year but then in its second year, new employment dropped back to nine employees but at a higher average annual salary of about $29,500. In its final year of the PILOT, employment climbed back to 14 at an average annual salary of $31,000, almost meeting the 15 new job criteria. No clawbacks were enforced due to the short PILOT term. All the new jobs created from this expansion project were given to existing residents from the local area.

Relocation
In January 2005, Prime Automotive outgrew its 120,000 square foot PILOT space and relocated to a 150,000 square foot facility located in Olive Branch, Mississippi (DeSoto County). The owner of Prime Automotive indicated that the move was not influenced by the expiration of the PILOT two years earlier or the incentives that were offered by Olive Branch, MS. The move was primarily influenced by a settlement issue that had been in the court system for over a year with the Memphis Fire Department regarding containment of hazardous materials. The settlement required that Prime Automotive invest over $300,000 to address the containment but such investment would not guarantee that it would meet all the requirements of the Fire Department resulting in potential additional costs. In order to minimize this risk, Prime Automotive decided to move locations completely.

Even though Prime Automotive moved to Mississippi, its employment base has generally stayed the same in terms of where people reside. The Memphis/Shelby County area is located in such close proximity to Olive Branch that commute times did not increase significantly for its employees. As discussed earlier, because minimal residential relocation has occurred, the negative impact of the company’s relocation to Mississippi is minimized since Memphis, Shelby County, and other local Tennessee communities are still receiving the majority of the retail sales tax revenue and residential property tax revenue from those employees residing in Memphis and/or Shelby County.

barnesandnoble.com Distribution Facility

Project Description and History

The company, barnesandnoble.com LLC is a Delaware limited liability company engaged in the retail sale of books and complementary information and entertainment products via the internet. Wanting to capitalize on the rapidly expanding e-commerce portion of the internet, which is characterized by customers who expect fast delivery times, barnesandnoble.com was interested in building a new distribution center. Given Memphis' reputation as the distribution capital of the United States, along with the presence of Federal Express and the existing infrastructure, barnesandnoble.com was interested in locating its primary North American distribution and fulfillment center to the Memphis area.

For the development of the 380,000 square foot distribution center at 6000 Freeport Avenue, Suite 101, Memphis, TN 38141, barnesandnoble.com secured a 9.5-year term (12/31/99 – 6/31/09) PILOT for both real and personal property from the IDB. For this PILOT, barnesandnoble.com committed to create 637 new jobs with average annual salaries of approximately $21,000 and capital investments of $12.6 million in real property and $17.4 million in personal property. A large portion of this personal property is comprised of highly computerized and automated systems to operate the facility.

At the time the PILOT was granted, the facility was located in unincorporated Shelby County and then later annexed into Memphis in 2003.

Performance

To date, the project exceeded its capital investment commitments by approximately $62,000. Unfortunately though, the downturn in the economy over recent years hampered its growth and its ability to achieve its forecasted employment levels. Remaining committed to the Memphis location but recognizing that it was unlikely to meet its original commitment levels, barnesandnoble.com voluntarily notified the IDB in 2003 and agreed to waive the notice and cure period requirements stated in the PILOT agreement.

After reevaluation of the PILOT performance, the IDB agreed to shorten the PILOT term to 7.5 years (12/31/99 to 12/31/07). According to the most recent performance monitoring report filed, the facility employs 271 persons at an average annual salary of approximately $22,400. It should be noted that the company indicated that all the new jobs created from this development project were given to existing residents from the local area.

Medtronic Sofamor Danek

Project Description and History

Medtronic Sofamor Danek, USA, Inc. (Medtronic) is the biotech global leader in the manufacture and distribution of spinal and cranial implant devices. Medtronic has been able to expand its service areas and expertise through business mergers over recent years, such as the 1999 merger between Medtronic and Sofamor Danek Group, Inc. Sofamor Danek Group, Inc. was formed as a result of the 1993 merger between Memphis based Danek Group, Inc. and Sofamor S.A.

Currently, Medtronic has locations in Memphis, Tennessee; Minneapolis, Minnesota; Louisville, Colorado; Warsaw, Indiana; Deggendorf, Germany; and Paris, France, with over 1,800 associates around the world. Medtronic has its headquarters, which includes sales, research and development and other administrative functions, as well as its primary distribution facility, in Memphis and employs close to 900 people within Memphis and Shelby County. Medtronic distributes its medical implant devices to surgeons and hospitals worldwide from its Memphis headquarters. In addition, Medtronic trains neurosurgeons from the U.S. and abroad at its Memphis Headquarters.

Since 1993 Medtronic and its legacy companies (Danek Corporation, Sofamor Corporation and Sofamor Danek Corporation) have been granted four PILOTs. Listed below are descriptions of each PILOT. Please note that annual performance reports are not available for the 1993 PILOT and annual performance reports filed for the 1997 and 2002 PILOTs detailed total employment of all three 1800 Pyramid Place Buildings rather than on an individual building basis, making it difficult to determine if PILOT requirements were successfully met on an individual PILOT basis.

1993 PILOT

The creation of Sofamor/Danek Group, Inc. is the result of a merger between Danek Group, Inc. and Sofamor S.A., which was completed effective June 21, 1993. To help keep the Danek headquarters operations in Memphis, as well as relocate Sofamor operations from Warsaw, Indiana to Memphis, the Sofamor/Danek Group was granted a 5-year PILOT (12/31/93 – 12/31/98) for both real and personal property. To accommodate the merging of the two companies, a new 3-story (60,000 sq ft) headquarters building was constructed at 1800 Pyramid Place in Memphis, TN, which housed both administrative/office and distribution operations of the company. For this PILOT, Sofamor/Danek Group, Inc. agreed to retain its existing 150 Danek employees in Memphis, as well as hire 22 additional employees.

It should be noted that by March 1998, the 3-story building at Pyramid Place housed over 300 employees, significantly exceeding its PILOT employment requirements.

1997 PILOT
Between 1993 and 1997, Sofamore Danek experienced significant growth requiring additional space. To accommodate this growth, a second PILOT was secured in 1997 for the construction of a second building with a total of 124,000 square feet (4-story) adjacent to the 3-story building at 1800 Pyramid Place. Together, buildings 1 and 2 would serve as the corporate headquarters and distribution center for Sofamore Danek Corporation. For this second PILOT, Sofamore Danek committed to create 214 additional new jobs at average annual salaries of approximately $43,000 and over $11 million in capital expenditures. The PILOT length of this agreement is for 10 years between 12/31/97 to 12/31/07. To date, the employment goals and capital requirements have been met or have been exceeded. As of 12/31/03, combined employment for Buildings 1 and 2 was 693 employees with average annual salaries of $65,000, exceeding PILOT employment requirements by 54 jobs and exceeding average salary requirements by over $22,000 per employee.

2000 PILOT
In January of 1999 Medtronic, Inc. acquired Sofamor Danek and was considering relocating Sofamor Danek's Memphis corporate headquarters to Minneapolis, where Medtronic's corporate headquarters are currently located. However, with the granting of the 2000 PILOT, the City of Memphis was able to persuade Medtronic to keep Sofamore Danek's corporate operations in Memphis, as well as relocating the distribution center of one of its California subsidiaries (PS Medical) to Memphis, due to the cost effectiveness of being located in close proximity to the FedEx hub. This PILOT was a 7- year PILOT for real and personal property, between 12/31/00 – 12/31/07. This project involved leasing a new 94,000 square foot distribution facility at 4340 Swinnea Road, which would house Medtronic's distribution activity in Memphis. The distribution operations located on the first two floors of 1800 Pyramid Place were relocated to the new facility and this space has been renovated and converted into additional office and testing space for the company.

For the PILOT granted in 2000, Medtronic agreed to create 235 new jobs at average annual salaries of approximately $23,000 and real property investments of $4,900,000 and personal property investments of $500,000. Medtronic exceeded is capital investments with over $6.2 million in real property and $726,000 in personal property. As of 4/29/05, Medtronic's distribution facility employees 201 persons, which is slightly below the PILOT requirements but has exceeded its wage requirements, reporting average annual salaries of approximately $29,000 for Year 2003. In addition, Medtronic has leased an additional 42,000 square feet of distribution space adjacent to the 4340 Swinnea Road facility, which is not under a PILOT agreement.

2002 PILOT
In response to market demand and growth experienced by Medtronic, the company was in a position to expand it's headquarter facility. For this next phase of investment, Medtronic proposed to construct a 6-story 140,000 square foot addition to and immediately east of the Company's existing headquarter facility, as well as constructing a 725 car garage. Medtronic was very interested in locating this additional investment in the Memphis area near the existing headquarters location. However, the company determined that there was a $9 million cost premium to locate such an expansion in Memphis due to the cost of constructing a parking garage, seismic and security upgrades and incremental sales costs associated with a Memphis/Shelby County Site.
The additional investment would also include complete renovations of the existing 3 and 4-story Headquarters Facilities located at 1800 Pyramid Place.

Recognizing these increased costs and the importance of retaining and growing the headquarter facility in Memphis, Medtronic was granted a 15-year PILOT between 12/31/04 – 12/31/19 on the new 6-story building and parking garage. In addition, a new 10-year PILOT (12/31/03 – 12/31/13) was granted to the 3-story building at Pyramid Place and a 5-year PILOT (12/31/07 – 12/31/12) extension was granted to the 4-story headquarters building.

For this PILOT, Medtronic committed to create 600 full-time jobs with average annual salaries of $62,000 and approximately $19 million real property investment and approximately $23 million in personal property investment.

Presently it is too early to determine if Medtronic will meet its 2002 PILOT requirements. As of April 2005, 834 total persons were employed at the three headquarters buildings at 1800 Pyramid Place, coming extremely close to the combined employment requirement of 836 total employees for the three Pyramid Place Headquarters buildings.

Other Operations – Bartlett Facility
In addition to the above listed Medtronic properties and operations, Medtronic acquired Premier Tool, Inc located in Bartlett, TN in January 2004, which Medtronic uses to manufacture select parts for surgical instruments. Medtronic did not seek a PILOT for this operation. Since acquisition, Medtronic added an extra shift, which created an additional 60 jobs with an average annual salary of $40,000. The total current 2005 employment is 120 full-time equivalent employees.

SFI of Tennessee, LLC

Project Description and History

Southern Fabricators, established in 1956, fabricated structural iron and steel in Memphis for clients in the transportation industry. In early 2002 Southern Fabricators filed for bankruptcy. At this time the company's assets were purchased by SteelWarehouse of South Bend, Indiana. SFI of Tennessee, a newly formed company, is the successor to Southern Fabricators, Inc and is a subsidiary of SteelWarehouse. SFI of Tennessee produces the same product lines of Southern Fabricators.

For the acquisition of the 674,000 square foot manufacturing facility and operations located at 4768 Hungerford Road, Memphis,TN, SFI secured a 6.5-year real property PILOT for the term of August 21, 2002 to January 1, 2009 and a 7-year personal property PILOT for personal property purchased in 2002 and 2004. For this PILOT, SFI committed to retaining the existing 230 jobs and create 150 new jobs within the first three years of operation at a median wage of $30,000 and capital investments of $1.5 million in real property facility additions and $20.55 million in personal property.

Performance

At the end of December 2001, Southern Fabricator's operations had dwindled to an employment level of 230 employees. Currently, the new ownership and administration of the operations has retained these remaining 230 employees, as well as creating 158 additional jobs with average annual salaries near $39,000 as a result of facility expansion as the new ownership pursued new clients and markets nationally and internationally. Additional future growth is also anticipated by SFI. It is important to note that the 230 existing jobs of Southern Fabricators would have been eliminated from the Memphis area if this acquisition and had not occurred. The PILOT agreement helped make the acquisition a reality, helping to retain 230 well paying jobs, as well as create over 150 new jobs to date.

Shelby County Economic Benefits

The following tables highlight the total estimated economic benefits to be received by Shelby County during the PILOT term and a 20-year operations period and construction period for each of the PILOT case studies.

Table 1: Economic Impact: Summary of Total 20-Year Operations and Construction Period by PILOT Project, Shelby County, TN, located at the end of this section, highlights the total economic impact by direct and indirect output and earnings and employment for each of the case studies. The table presents the net present value (NPV) of these impacts back to the PILOT origination years using a 5% discount factor. Recognizing that the select PILOT case studies have different PILOT origination years, the NPV was then converted to 2005 dollars to allow for equal comparison of the various PILOT projects by amount of 2005 dollar impacts.

The following section helps define the various categories listed in the following table.

Total Aggregate Economic Benefits - This includes the direct and indirect employment earnings and operations output of the PILOT Projects and the direct and indirect construction earnings and output of the projects. It equals the total contribution to the Gross Domestic Product (GDP).

Direct Operations Output and Earnings – Includes the estimated impact from direct payroll and operations of the PILOT projects on Shelby County.

Direct Construction Output and Earnings – Includes the estimated impact from direct construction payroll and local purchases of materials and services for the construction of the PILOT projects on Shelby County.

Indirect Output and Earnings - Includes estimated earnings and output generated by indirect employment and operations in Shelby County brought about as the direct effects of the PILOT projects' operations flow through the economy.

Indirect Construction Output and Earnings - Includes estimated earnings and output generated by indirect employment and operations in Shelby County brought about as the direct effects from direct construction payroll and local purchases of materials and services for the construction of the PILOT projects.

Direct and Indirect Employment – Includes the average annual jobs created from the direct and indirect operations of PILOT projects at full capacity, as well as from the construction of the development.

Shelby County/City of Memphis Fiscal Impacts

Table 2: Fiscal Impact: Summary of Total 20-Year Operations and Construction Period by PILOT Project, located at the end of this section highlights the total estimated fiscal revenues and incentives to be received and/or granted by Shelby County and City of Memphis during the PILOT term and a 20-year operations and construction period for each of the PILOT case studies. The table presents the net present value (NPV) of these revenues back to the PILOT origination years using a 5% discount factor. Recognizing that the select PILOT case studies have different PILOT origination years, the NPV was then converted to 2005 dollars to allow for equal comparison of the various PILOT projects by amount of fiscal revenues in 2005 dollars.

NPV of the Total Net Gain/(Loss) in County/City Revenues – Includes the NPV of all fiscal revenues of Shelby County and City of Memphis less any public incentives granted for each of the PILOT projects.

Construction Public Revenues - Includes the Shelby County and/or City of Memphis sales tax revenues on purchase of materials and services as a direct result of the construction of the PILOT projects. Due to the difficulty of accurately estimating where materials and services had been purchased throughout the County and taking into consideration the varying tax rates of the different municipalities, the model uses the combined historic and current tax rates of Memphis and Shelby County to estimate the amount of tax revenue to be generated throughout the County. Not enough data is available to accurately estimate sales tax revenue by individual municipalities within Shelby County.

Real Property PILOT Payment – Includes the past and expected future PILOT payments on real property for each of the projects.

Personal Property PILOT Payment - Includes the past and expected future PILOT payments on personal property for each of the projects.

Real Property Tax Revenue from PILOT Project – Includes past and expected future real property tax revenue to be collected during construction and after the expiration of the PILOTs for each of the projects.

Personal Property Tax Revenue from PILOT Project – Includes past and expected future real property tax revenue to be collected after the expiration of the PILOTs or for personal property that was not included under the PILOT agreement for each of the projects.

Sales Tax Revenue from Employees – Includes the retail sales tax revenue generated from the PILOT projects' direct employees who live in Shelby County. Due to the difficulty in determining which jurisdiction retail goods would likely be purchased in, the model uses the combined historic and current tax rates of Memphis and Shelby County to estimate the amount of tax revenue to be generated throughout the County. Not enough data is available to accurately estimate sales tax revenue by individual municipalities within Shelby County.

Sales and Hotel Tax Revenue from Visitors – Includes the retail sales and hotel tax revenue generated from business travelers visiting the individual PILOT projects.

Sales Tax Revenue from Indirect Employees - Includes the retail sales tax revenue generated from the indirect employees brought about by the direct operations of the PILOT projects. Due to the difficulty in determining which jurisdiction retail goods would likely be purchased in, the model uses the combined historic and current tax rates of Memphis and Shelby County to estimate the amount of tax revenue to be generated throughout the County. Not enough data is available to accurately estimate sales tax revenue by individual municipalities within Shelby County.

Property Tax Revenue from New Area Employees – Includes the estimated residential property tax revenues from homes of new employees who transferred from outside the area to work at the PILOT projects.

Real Property PILOT Incentive – Includes past and potential future real property tax revenues forgone due to the issuance of PILOTs to each of the projects.

Personal Property PILOT Incentives - Includes past and potential future personal property tax revenues forgone due to the issuance of PILOTs to each of the projects.

City of Memphis Fiscal Impacts

Table 2: Fiscal Impact: Summary of Total 20-Year Operations and Construction Period by PILOT Project, located at the end of this section highlights the total estimated fiscal revenues and incentives to be received and/or granted by the City of Memphis during the PILOT term and a 20-year operations and construction period for each of the PILOT case studies. The above revenues and costs are included as a component to the revenues and costs of the Shelby County/City of Memphis Fiscal Impacts listed in the previous section. Please note that for categories of *Construction Sales Tax Revenue, Sales Tax Revenue from Direct and Indirect Employees, and Sales Tax Revenue from Visitors* the revenues could not be calculated at the City of Memphis level due to the unavailability of information at such a detailed municipal level. The model assumes these revenues are captured either by Shelby County, the City of Memphis, or other local municipalities in Shelby County and are included in the previous Shelby County/City of Memphis Fiscal Impact section.

The table presents the net present value (NPV) of these revenues back to the PILOT origination years using a 5% discount factor. Recognizing that the select PILOT case studies have different PILOT origination years, the NPV was then converted to 2005 dollars to allow for equal comparison of the various PILOT projects by amount of fiscal revenues in 2005 dollars.

NPV of the Total Net Gain/(Loss) in City Revenues – Includes the NPV of all fiscal revenues of the City of Memphis less any public incentives granted for each of the PILOT projects.

Real Property PILOT Payment – Includes the past and expected future PILOT payments on real property for each of the projects.

Personal Property PILOT Payment - Includes the past and expected future PILOT payments on personal property for each of the projects.

Real Property Tax Revenue from PILOT Project – Includes past and expected future real property tax revenue to be collected during construction and after the expiration of the PILOTs for each of the projects.

Personal Property Tax Revenue from PILOT Project – Includes past and expected future real property tax revenue to be collected after the expiration of the PILOTs or for personal property that was not included under the PILOT agreement for each of the projects.

Hotel Tax Revenue from Visitors – Includes the hotel tax revenue generated from business travelers visiting the individual PILOT projects.

Property Tax Revenue from New Area Employees – Includes the estimated residential property tax revenues from homes of new employees who transferred from outside the area to Memphis to work at the PILOT projects.

Real Property PILOT Incentive – Includes past and potential future real property tax revenues forgone due to the issuance of PILOTs to each of the projects.

Personal Property PILOT Incentive - Includes past and potential future personal property tax revenues forgone due to the issuance of PILOTs to each of the projects.

State of Tennessee Fiscal Benefits

Table 2: Fiscal Impact: Summary of Total 20-Year Operations and Construction Period by PILOT Project, located at the end of this section highlights the total estimated fiscal revenues that will be exclusively collected by the State of Tennessee during the PILOT term and a 20-year operations and construction period for each of the PILOT case studies. The table presents the net present value (NPV) of these revenues back to the PILOT origination years using a 5% discount factor. Recognizing that the select PILOT case studies have different PILOT origination years, the NPV was then converted to 2005 dollars to allow for equal comparison of the various PILOT projects by amount of fiscal revenues in 2005 dollars.

NPV of the Total Net Gain/(Loss) in City Revenues – Includes the NPV of all fiscal revenues to be collected by the State of Tennessee.

Construction Public Revenues – Includes the State public revenues from state sales tax revenues on purchase of materials and services as a direct result of the construction of each of the PILOT projects.

Retail Sales Tax Revenue – Includes the State sales tax revenues generated from the direct and indirect employment and visitor spending generated by each of the PILOT projects.

Franchise Tax Revenue – Includes the State franchise tax revenue generated from 0.25% of the greater of net worth or real and tangible property in Tennessee of each of the PILOT projects. Since net worth of PILOT projects was not available for this study, the model estimated the franchise tax from the value of PILOT projects' real and tangible property.

Memphis/Shelby County PILOT Projects
20-Year Economic Impact Analysis (Plus Construction Phase) by PILOT Projects

TABLE 1: ECONOMIC IMPACT: SUMMARY OF TOTAL 20-YEAR OPERATIONS AND CONSTRUCTION PERIOD BY PILOT PROJECT, SHELBY COUNTY, TN

(Rounded to nearest thousand dollar)				**Medtronic Sofamor Danek Corporation**					
	Prime Automotive[1]	**barnesandnoble.com**	**SFI of Tennessee, LLC**	**1993 PILOT, 3-Sty Bldg**	**1997 PILOT, 4-Sty Bldg**	**2000 PILOT, Distribution Facility**	**2002 PILOT, 6-Sty Bldg**	**Bartlett Facility**	**Total Medtronic Operations**
PILOT Terms	12/31/99 - 12/31/2002	12/31/99 - 12/31/09	8/21/02 - 1/1/09 [6]	12/31/93 - 12/31/98	12/31/97 - 12/31/07	12/31/00 - 12/31/07	12/31/04 - 12/31/19	n/a	
PILOT Extension/*Clawback	n/a	Clawback to 6/31/07	n/a	12/31/03 - 12/31/13	12/31/07 - 12/31/12	n/a	n/a	n/a	
Number of Total PILOT Years	2 years	7.5 years	6.5 years	15 years	15 years	7 years	15 years	n/a	
Total Aggregate Economic Benefits (2005 $)	**$15,594,000**	**$659,669,000**	**$2,469,536,000**	**$467,597,000**	**$1,158,178,000**	**$481,231,000**	**$1,857,786,000**	**$369,268,000**	**$4,334,060,000**
Total Direct Economic Benefits: Memphis/Shelby County	***$8,269,000***	***$525,167,700***	***$2,208,138,000***	***$316,585,000***	***$858,089,000***	***$376,311,000***	***$1,630,268,000***	***$327,563,000***	**$3,508,816,000**
Net Present Value (NPV) Analysis @ 5.00% [4]	**$6,978,000** (1999 $)	**$291,913,000** (1998 $)	**$1,309,219,000** (2002 $)	**$175,158,000** (1993 $)	**$483,251,000** (1997 $)	**$213,998,000** (1999 $)	**$876,024,000** (2003 $)	**$203,391,000** (2004 $)	**$1,951,822,000**
NPV Converted to 2005 Dollars	**$8,016,000**	**$341,882,000**	**$1,405,918,000**	**$231,512,000**	**$573,187,000**	**$245,834,000**	**$919,504,000**	**$208,202,000**	**$2,178,239,000**
Construction Output and Earnings	$1,476,000	$5,573,000	$590,000	$1,661,000	$3,452,000	$2,597,000	$6,996,000	$0	**$14,706,000**
New Employ Earnings from PILOT Project	$1,317,000	$102,434,700	$250,758,000 [3]	$86,010,000	$254,172,000	$79,647,000	$536,242,000	$36,703,000	**$992,774,000**
Direct Output from New PILOT Employ[2]	$5,476,000	$417,160,000	$1,956,790,000 [3]	$228,914,000	$600,465,000	$294,067,000	$1,087,030,000	$290,860,000	**$2,501,336,000**
Total Direct Employment from PILOT Project									
Total Direct Construction Jobs	24	89	9	29	54	42	116	0	241
Construction - Est. Shelby Co Residents	*12*	*45*	*5*	*15*	*27*	*21*	*59*	*0*	*122*
New Employment from PILOT Project	0 [1]	271	173	127 [5]	303 [5]	200	556 [5]	60	1,246
Est. Employees Residing in Shelby Co.	0	*203*	*121*	*80*	*191*	*126*	*350*	*38*	*785*
Retained Employment from PILOT Project	0	n/a	230	150 [5]	48 [5]	35	0 [5]	60	293
Est. Employees Residing in Shelby Co.	0	n/a	*161*	*95*	*30*	*22*	*0*	*38*	*184*
Total New and Retained Jobs	**0**	**271**	**403**	**277 [5]**	**350 [5]**	**235**	**556 [5]**	**120**	**1,539**
Total Indirect Economic Benefits: Memphis/Shelby County[2]	***$7,825,000***	***$487,883,000***	***$1,677,935,000***	***$322,913,000***	***$875,617,000***	***$360,340,000***	***$1,663,236,000***	***$254,340,000***	**$3,476,446,000**
Net Present Value (NPV) Analysis @ 5.00% [4]	**$6,597,000** (1999 $)	**$271,339,604** (1998 $)	**$990,462,059** (2002 $)	**$178,618,000** (1993 $)	**$493,203,000** (1997 $)	**$204,913,000** (1999 $)	**$893,914,000** (2003 $)	**$157,344,000** (2004 $)	**$1,927,992,000**
NPV Converted to 2005 Dollars	**$7,578,000**	**$317,787,000**	**$1,063,618,000**	**$236,085,000**	**$584,991,000**	**$235,397,000**	**$938,282,000**	**$161,066,000**	**$2,155,821,000**
Indirect Construction Output and Earnings	$1,353,000	$5,113,000	$540,000	$1,575,000	$3,721,000	$2,382,000	$7,548,000	$0	**$15,226,000**
Indirect Employ Earnings from New PILOT Employ	$1,186,000	$79,952,000	$358,332,000 [3]	$87,321,000	$258,042,000	$74,009,000	$544,414,000	$58,280,000	**$1,022,066,000**
Indirect Output from New PILOT Employ	$5,286,000	$402,818,000	$1,319,063,000 [3]	$234,017,000	$613,854,000	$283,949,000	$1,111,274,000	$196,060,000	**$2,439,154,000**
Total Indirect Employment (Shelby County) from New PILOT Project Employment[2]									
Indirect Construction Employment	10	36	4	12	21	17	47	0	97
Indirect Employment from PILOT Project	0	171	503 [3]	125	297	126	546	75	1,169

[1] Prime Automotive Warehouse relocated to DeSoto County, MS on January 15, 2005.
[2] The indirect employment and output impacts were generated using accepted U.S. Department of Commerce multipliers specific to Shelby County, TN.
[3] For the SFI case study, the employment impacts for both the retained and newly created jobs were quantified since this project involved the acquisition of the bankrupt company, Southern Fabricators. The PILOT helped enable SteelWarehouse of South Bend, IN purchase Southern Fabricators, creating SFI, which retained the existing 230 employees as well as creating over 150 new jobs within its first three years. It was important to quantify the impacts of these 230 existing jobs since they would have been eliminated from the Memphis area if this acquisition had not occurred.
[4] The 5% NPV discount factor is based on the trend interest rates paid by Shelby County and City of Memphis on their General Obligation Bonds between Years 1991 and 2004 as reported in each of the governments' 2004 Comprehensive Annual Financial Report.
[5] Current 2005 and select historical employment and residence data was available for the three Pyramid buildings collectively. Estimates were calculated for each building based on building square footage, information presented in the PILOT applications, annual monitoring reports, and data supplied by Medtronic.
[6] A 7-year personal property PILOT was also granted for personal property purchased in 2002 and 2004.

Memphis/Shelby County PILOT Projects
20-Year Economic Impact Analysis (Plus Construction Phase) by PILOT Projects

TABLE 2: FISCAL IMPACT: SUMMARY OF TOTAL 20-YEAR OPERATIONS AND CONSTRUCTION PERIOD BY PILOT PROJECT

(Rounded to nearest thousand dollar)	Prime Automotive[1]	barnesandnoble.com	SFI of Tennessee, LLC	Medtronic Sofamor Danek Corporation					
				1993 PILOT, 3-Sty Bldg	1997 PILOT, 4-Sty Bldg	2000 PILOT, Distribution Facility	2002 PILOT, 6-Sty Bldg	Bartlett Facility[7]	Total Medtronic Operations
PILOT Terms	12/31/99 - 12/31/2002	12/31/99 - 12/31/09	8/21/02 - 1/1/09 [8]	12/31/93 - 12/31/98	12/31/97 - 12/31/07	12/31/00 - 12/31/07	12/31/04 - 12/31/19	n/a	
PILOT Extension/*Clawback	n/a	Clawback to 6/31/07	n/a	12/31/03 - 12/31/13	12/31/07 - 12/31/12	n/a	n/a	n/a	
Number of Total PILOT Years	3 years	7.5 years	6.5 years	15 years	15 years	7 years	15 years	n/a	
Total Shelby County/City of Memphis Revenues									
Construction	$14,000	$53,000	$5,000	$16,000	$34,000	$25,000	$67,000	$0	**$142,000**
Real Property PILOT Payment	$9,000	$135,000	$684,000	$385,000	$371,000	$157,000	$1,363,000	$0	**$2,276,000**
Personal Property PILOT Payment	$300	$3,000	$234,000	$172,000	$116,000	$1,000	$136,000	$0	**$425,000**
Real Property Tax Revenue from PILOT Project	$209,000	$4,745,000	$3,590,000	$506,000	$1,145,000	$1,306,000	$2,756,000	$0	**$5,713,000**
Personal Property Tax Revenue from PILOT	$11,200	$1,214,000	$1,674,000	$515,000	$749,000	$313,000	$420,000	$0	**$1,997,000**
Sales Tax Revenue from New Employees	$158,000	$914,000	$2,207,000 [6]	$648,000	$1,908,000	$707,000	$3,309,000	$244,000	**$6,816,000**
Sales and Hotel Tax Revenue from Visitors	$0	$0	$39,000	$184,000	$768,000	$0	$1,089,000	$0	**$2,041,000**
Sales Tax Revenue from Indirect Employees	$16,000	$711,000	$2,577,000	$580,000	$1,703,000	$652,000	$3,600,000	$420,000	**$6,955,000**
Property Tax Revenue from New Area Employees	$0	$0	$692,000	$2,766,000	$5,513,000	$0	$11,990,000	$0	**$20,269,000**
Total County/City Public Revenues	**$418,000**	**$7,775,000**	**$11,702,000**	**$5,772,000**	**$12,307,000**	**$3,161,000**	**$24,730,000**	**$664,000**	**$46,634,000**
Total County/City PILOT Incentive	**$113,000**	**$2,832,000**	**$2,011,000**	**$3,004,000**	**$4,567,000**	**$592,000**	**$6,874,000**	**$0**	**$15,037,000**
Real Property PILOT Incentive	$111,000	$2,035,000	$546,000	$1,426,000	$2,740,000	$410,000	$5,998,000	$0	**$10,574,000**
Personal Property PILOT Incentive	$2,000	$797,000	$1,465,000	$1,578,000	$1,827,000	$182,000	$876,000	$0	**$4,463,000**
Net Present Value (NPV) Analysis @ 5.00% [5] Total Net Gain/(Loss) in County/City Revenues									
1. During PILOT Period Only	($81,000) *(2000 $)*	($1,469,000) *(2000 $)*	$415,000 *(2002 $)*	($149,000) *(1993 $)*	$732,000 *(1997 $)*	($63,000) *(2000 $)*	$5,283,000 *(2004 $)*	n/a	**$5,803,000**
NPV Converted to 2005 Dollars	**($90,000)**	**($1,635,000)**	**$446,000**	**($197,000)**	**$868,000**	**($70,000)**	**$5,408,000**	**n/a**	**$6,009,000**
2. Total 20-Year Operations/Construction Period	$191,000 *(1999 $)*	$1,775,000 *(1998 $)*	$4,913,000 *(2002 $)*	$1,520,000 *(1993 $)*	$3,520,000 *(1997 $)*	$1,245,000 *(2000 $)*	$8,517,000 *(2003 $)*	$402,000 *(2004 $)*	**$15,204,000**
NPV Converted to 2005 Dollars	**$219,000**	**$2,079,000**	**$5,276,000**	**$2,009,000**	**$4,175,000**	**$1,386,000**	**$8,940,000**	**$412,000**	**$16,922,000**
3. During PILOT Extension Period Only	n/a	n/a	n/a	$1,123,000 *(2003 $)*	$1,330,000 *(2008 $)*	n/a	n/a	n/a	$2,453,000
NPV Converted to 2005 Dollars	n/a	n/a	n/a	**$1,179,000**	**$1,253,000**	n/a	n/a	**n/a**	**$2,432,000**
Total City of Memphis Public Revenues [1]									
Construction[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real Property Tax Revenue from PILOT Project	$92,000	$2,170,000	$1,650,000	$234,000	$527,000	$601,000	$1,263,000	$0	**$2,625,000**
Personal Property Tax Revenue from PILOT	$3,900	$511,000	$765,000	$237,000	$344,000	$144,000	$193,000	$0	**$918,000**
Real Property PILOT Payment	$0	$48,000	$270,000	$94,000	$108,000	$73,000	$195,000	$0	**$470,000**
Personal Property PILOT Payment	$0	$1,000	$1,000	$2,000	$2,000	$1,000	$2,000	$0	**$7,000**
Sales Tax Revenue from New Employees[2]	n/a	n/a	n/a [6]	n/a	n/a	n/a	n/a	n/a	**n/a**
Hotel Tax Revenue from Visitors	$0	$0	$0	$31,000	$125,000	$0	$181,000	$0	**$337,000**
Sales Tax Revenue from Visitors[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Sales Tax Revenue from Indirect Employees[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Property Tax Revenue from New Area Employees	$0	$0	$244,000	$1,059,000	$2,108,000	$0	$4,582,000	$0	**$7,749,000**
Total City of Memphis Public Revenues [4]	**$96,000**	**$2,730,000**	**$2,930,000**	**$1,657,000**	**$3,214,000**	**$819,000**	**$6,416,000**	**$0**	**$12,106,000**
Total City of Memphis PILOT Incentive [1]	**$0**	**$934,000**	**$1,062,000**	**$1,564,000**	**$2,213,000**	**$267,000**	**$3,653,000**	**$0**	**$7,697,000**
Real Property PILOT Incentive	$0	$697,000	$290,000	$747,000	$1,324,000	$184,000	$3,188,000	$0	**$5,443,000**
Personal Property PILOT Incentive	$0	$237,000	$772,000	$817,000	$889,000	$83,000	$465,000	$0	**$2,254,000**
Net Present Value (NPV) Analysis @ 5.00% [5] Total Net Gain/(Loss) in City of Memphis Revenues[4]									
1. During PILOT Period Only	$0 *(2000 $)*	($592,000) *(2000 $)*	-$480,000 *(2002 $)*	($166,000) *(1993 $)*	($341,000) *(1997 $)*	($148,000) *(2000 $)*	($239,000) *(2004 $)*	n/a	**($894,000)**
NPV Converted to 2005 Dollars	**$0**	**($659,000)**	**-$515,000**	**($219,000)**	**($404,000)**	**($165,000)**	**($245,000)**	**n/a**	**($1,033,000)**
2. Total 20-Year Operations/Construction Period	$73,000 *(1999 $)*	$627,000 *(1998 $)*	$716,000 *(2002 $)*	$92,000 *(1993 $)*	$224,000 *(1997 $)*	$219,000 *(2000 $)*	$933,000 *(2003 $)*	$0 *(2004 $)*	**$1,468,000**
NPV Converted to 2005 Dollars	**$84,000**	**$734,000**	**$769,000**	**$122,000**	**$266,000**	**$244,000**	**$979,000**	**$0**	**$1,611,000**
3. During PILOT Extension Period Only	n/a	n/a	n/a	($191,000) *(2003 $)*	($159,000) *(2008 $)*	n/a	n/a	n/a	**($350,000)**
NPV Converted to 2005 Dollars	n/a	n/a	n/a	**($200,000)**	**($150,000)**	n/a	n/a	**n/a**	**($350,000)**

Memphis/Shelby County PILOT Projects
20-Year Economic Impact Analysis (Plus Construction Phase) by PILOT Projects

TABLE 2: FISCAL IMPACT: SUMMARY OF TOTAL 20-YEAR OPERATIONS AND CONSTRUCTION PERIOD BY PILOT PROJECT

(Rounded to nearest thousand dollar)				Medtronic Sofamor Danek Corporation					
	Prime Automotive[1]	**barnesandnoble.com**	**SFI of Tennessee, LLC**	**1993 PILOT, 3-Sty Bldg**	**1997 PILOT, 4-Sty Bldg**	**2000 PILOT, Distribution Facility**	**2002 PILOT, 6-Sty Bldg**	**Bartlett Facility [7]**	**Total Medtronic Operations**
Total State of TN Public Revenues [3]									
Construction - Sales & Use Tax	$94,000	$355,000	$37,000	$106,000	$221,000	$166,000	$486,000	$0	**$979,000**
Sales Tax Revenue from New and Indirect Employees	$515,000	$4,767,000	$14,277,000 [6]	$3,747,000	$11,503,000	$4,030,000	$21,919,000	$1,982,000	**$43,181,000**
Franchise Tax	$28,000	$484,000	$508,000	$328,000	$444,000	$112,000	$465,000	$0	**$1,349,000**
Total State of TN Public Revenues	**$637,000**	**$5,606,000**	**$14,822,000**	**$4,181,000**	**$12,168,000**	**$4,308,000**	**$22,870,000**	**$1,982,000**	**$45,509,000**
Net Present Value (NPV) Analysis @ 5.00% [5] Total Net Gain/(Loss) in State of TN Revenues									
1. During PILOT Period Only	$41,000 *(2000 $)*	$1,462,000 *(2000 $)*	$2,965,000 *(2002 $)*	$451,000 *(1993 $)*	$3,553,000 *(1997 $)*	$821,000 *(2000 $)*	$10,121,000 *(2004 $)*	n/a	**$14,946,000**
NPV Converted to 2005 Dollars	**$46,000**	**$1,627,000**	**$3,184,000**	**$596,000**	**$4,214,000**	**$914,000**	**$10,360,000**	**n/a**	**$16,084,000**
2. Total 20-Year Operations/Construction Period	$401,000 *(1999 $)*	$3,227,000 *(1998 $)*	$8,471,000 *(2002 $)*	$2,252,000 *(1993 $)*	$6,725,000 *(1997 $)*	$2,459,000 *(2000 $)*	$12,297,000 *(2003 $)*	$1,196,000 *(2004 $)*	**$24,929,000**
NPV Converted to 2005 Dollars	**$461,000**	**$3,779,000**	**$9,097,000**	**$2,977,000**	**$7,977,000**	**$2,737,000**	**$12,907,000**	**$1,224,000**	**$27,822,000**
3. During PILOT Extension Period Only	n/a	n/a	n/a	$2,272,000 *(2003 $)*	$2,974,000 *(2008 $)*	n/a	n/a	n/a	**$5,246,000**
NPV Converted to 2005 Dollars	n/a	n/a	n/a	**$2,385,000**	**$2,802,000**	n/a	n/a	n/a	**$5,187,000**

[1] These are exclusively City of Memphis tax revenues and incentives. These totals are included as a component to the revenues of Shelby County/City of Memphis.
[2] These revenues could not be calculated at the City of Memphis level due to the unavailability of information at such a detailed level. Model assumes these revenues are captured either by The Shelby County/City of Memphis/or other local municipal governments within Shelby County and are included in the Shelby County/City of Memphis Revenues Category.
[3] These public revenues are exclusive to the State of Tennessee and are not included in the above two categories of 1) *Total Shelby County/City of Memphis Revenues and 2) Total City o Memphis Public Revenues* .
[4] The Total City of Memphis Public Revenues and "Net Gain" in City of Memphis Revenues is likely underestimated, since the sales tax revenue from employees, visitors, and construction could only be calculated at the County level and not at the City level.
[5] The 5% NPV discount factor is based on the trend interst rates paid by Shelby County and City of Memphis on their General Obligation Bonds between Years 1991 and 2004 as reported in each of the governments' 2004 Comprehensive Annual Financial Report.
[6] For the SFI case study, the employment spending impacts for both the retained and newly created jobs were quantified since this project involved the acquisition of the bankrupt company, Southern Fabricators. The PILOT helped enable SteelWarehouse of South Bend, IN purchase Southern Fabricators, creating SFI, which retained the existing 230 employees as well as creating over 150 new jobs within its first three years. It was important to quantify the impacts of these 230 existing jobs since they would have been eliminated from the Memphis area if this acquisition had not occurred.
[7] Since Medtronic purchased the existing Bartlett Facility in 2004 and is not a new or improved property, it is assumed that no new real estate/ personal property taxes and franchise taxes will be generated under new ownership of Medtronic that had not previously been collected from the previous owner.
[8] A 7-year personal property PILOT was also granted for personal property purchased in 2002 and 2004.

Economic Impact Conclusions

All of the four PILOT case studies evaluated indicate a positive NPV in terms of a net gain in Shelby County/City of Memphis[2] fiscal revenues less the PILOT incentive over a 20-year operations period and construction period, regardless of PILOT length, number of jobs, and average annual salary. However, it is important to note that only select PILOT projects produced a positive NPV in terms of a net gain in Shelby County/City of Memphis fiscal revenues during just the PILOT term period. These PILOTs include:

- SFI of Tennessee, LLC
- Medtronic 3-Story Building (2nd PILOT, 12/31/03 – 12/31/12)
- Medtronic 1997 PILOT, 4-Story Building
- Medtronic 2002 PILOT, 6-Story Building

The main factors contributing to this positive NPV in fiscal revenues during the PILOT period include the following:

- Large number of new jobs created generating significant retail spending in the area
- PILOT projects that attract new workforce to the local area with higher annual average incomes of over $40,000
- PILOT projects that generate visitor spending

Number of New Jobs Created

The number of new jobs created is closely correlated with the level of additional retail spending that will occur in the area, generating additional tax revenue. The more jobs created, the larger the retail sales tax revenue will be as illustrated below.

PILOT Project	Year	Annual New Jobs Created	Average Annual Salary	Estimated Annual Retail Sales Tax Revenue Generated by Employee Spending
Prime Automotive	**2002**	**14**	**$31,000**	**$3,000**
Barnesandnoble.com	**2003**	**271**	**$22,400**	**$40,000**
Medtronic, 4-story bldg	**2000**	**281**	**$51,700**	**$69,000**

Higher annual incomes also increase the level of retail spending in the area. However, it should be noted that lower income households generally spend a larger percentage of their disposable income on local retail goods as compared to higher income households, which tend to save and travel more, which somewhat equalizes the local spending levels between household income levels.

[2] It should be noted that the *Total City of Memphis Public Revenues* and *"Net Gain"* in City of Memphis Revenues is likely underestimated, since the sales tax revenue from employees, visitors, and construction could only be calculated at the County level and not at the City level.

Attraction of New Workforce to the Local Area

One of the biggest contributors to creating a positive NPV in terms of a net gain in Shelby County/City of Memphis fiscal revenues, helping to offset the PILOT incentive, is the attraction of new workers to the area, who will be generating new residential property tax dollars. The Medtronic headquarters facility is an excellent example of how workforce recruitment to the Memphis area can significantly increase the economic impact of a project. For instance, it is estimated that by Year 2010 at full build-out, approximately 65% of Medtronic's 550 – 600 new employees at its new 6-story headquarters building will be employee transfers from outside the area. Based on current employee residence locations, the model assumes 46% of the employee transfers will live within Shelby County, TN and that 90% will be new homeowners in the area, generating estimated annual residential property tax revenues of $594,000. This revenue source, is the largest fiscal revenue source generated by the Medtronic headquarter facilities, accounting for close to 50% of its total fiscal revenues.

While the distribution PILOT projects of *barnesandnoble.com* and *Medtronic's Swinnea Road Distribution Facility*, have created and/or are expected to create a significant number of new jobs, totaling 271 and 200 new jobs respectively, these projects do not create a positive NPV in fiscal revenues during their PILOT terms. This is mainly due to the fact that the majority, if not all of the new jobs created, are employing local residents at lower income levels between $20,000 - $30,000. Such low income levels typically do not enable these employees to become homeowners, which would generate additional tax revenue. Also, since existing local residents are filling these new jobs, no new residential property taxes are being generated since the model assumes these residents already currently own their homes or are renters.

Visitor Spending

A third major factor contributing to a positive NPV in terms of a net gain in Shelby County/City of Memphis fiscal revenues, helping to offset the PILOT incentive is the PILOT Project's ability to generate increased visitation.

For instance, the three distribution operations, *Prime Automotive Warehouse, barnesandnoble.com,* and *Medtronic's* distribution facilities generate little to no business visitation that would require hotel lodging and travel spending. However, businesses such as Medtronic, a corporate headquarters and surgical training location in Memphis, generates significant business visitation from customers, suppliers, trainees, and other corporate employees. To illustrate this difference, the model estimates that $0 in local sales and hotel tax revenue will be collected over a 20-year period for any of the distribution facilities, while the three Medtronic headquarters buildings will generate over $2 million in local sales and hotel tax revenue over a 20-year period.

Local Employees

It was presented earlier that projects tend to have a greater economic impact if they attract new employees from outside the area rather hire local residents. However, it is equally important to generate jobs for the existing local workforce to reduce unemployment and create a healthy and stable local economy. Even though the immediate fiscal/economic impact may not be as great as hiring employees from outside the local area, providing job opportunities for local residents will create a higher quality of life and a more attractive place to work and live for all residents, which will have a qualitative positive long-term effect that is difficult to numerically quantify.

Please note that the level of additional residential property tax revenue may be underestimated in this model. The model takes a conservative approach by only quantifying the residential property taxes from homes of new employees who transferred from outside the area. It is assumed that employee transfers would generate new residential property tax revenues to the City and County. The residential property taxes of the new employees who were already residents of the City or County were not factored into the model, since these property taxes would not be "new" revenues to the City or County. However, these new jobs offered by the PILOT project to existing Shelby County residents may allow a household to keep their home, upgrade to a larger home or become a home owner, which could increase the City's/County's property tax revenues. Due to the difficulty of accurately calculating this potential increase in revenue from existing residents, the model only calculates the revenue impact from new employees who transferred to Shelby County for employment.

Retained Employees

While it can easily be justified to grant public incentives to projects that will create new jobs, which in turn generate new tax revenue, it is more difficult to justify granting incentives to existing projects that will retain employment. However, given the increasing competitive markets in the surrounding areas, it should be noted that in specific cases, the issuance of incentives for expansion/retention projects can be critical in retaining company operations and employment within the local area, which is often more important than creating new jobs. For instance, if a community loses a major employer(s) due to economic difficulties or competing markets, the assessed value of the subject property(s) can decline, reducing property tax revenues to the community as well as a loss in potential retail spending and residential property tax revenue as unemployment increases.

The *SFI PILOT Project* illustrates the importance of the local government's assistance in helping to retain SFI's existing employment base. With the granting of the PILOT incentive, the new ownership of SFI has been able to retain the remaining 230 employees, as well as create 158 additional jobs with average annual salaries near $39,000. In total, this project will generate over a 20-year period:

- $5 million (2005 $) in net fiscal revenues;
- $2.5 billion (2005 $) in direct and indirect economic benefits to Shelby County; and
- $9 million (2005 $) in State of TN fiscal revenues.

Company Relocation After PILOT Expiration

There is always the risk that a company will relocate out of the area once a public incentive has been realized/expired. Due to this risk, the incentive should be carefully structured, offering a balance where the incentive is significant enough to attract and/or retain the business to the area but also not so excessive where the community would experience a major fiscal loss if the business does decide to relocate.

An example of this is when Prime Automotive Warehouse relocated from Memphis, TN to DeSoto County, MS in January 2005, two years after the expiration of its 3-year PILOT. As illustrated by the detailed economic impact model tables for Prime Automotive located in the appendix, the PILOT incentive was appropriately structured, where the City/County realized a $47,000 cumulative net gain in fiscal revenues in the immediate year after its PILOT expired.

This revenue recovery indicates that the approved PILOT incentive adequately reflected the size and level of impact the expansion project would bring to the area and did not put the City/County governments in risk of losing significant revenues.

It is unfortunate that Prime Automotive relocated to DeSoto County due to unrelated PILOT business reasons, since Memphis and Shelby County could not realize its full long-term economic benefit that the PILOT was intended for. However, during the limited time (5 years) Prime Automotive operated in Memphis and/or Shelby County after the 3-year PILOT was issued, Memphis/Shelby County realized a positive net gain in fiscal revenues (less PILOT incentive) and contributed over $15 million ($2005) in direct and indirect economic benefits to Shelby County, TN.

Even though Prime Automotive moved to Mississippi, its employment base has generally stayed the same in terms of where people reside. The Memphis/Shelby County area is located in such close proximity to DeSoto County, MS that commute times did not increase significantly for its employees. As discussed earlier, because minimal residential relocation has occurred, the negative impact of the company's relocation to Mississippi is minimized since Memphis, Shelby County, and other local Shelby County communities are still receiving the majority of the retail sales tax revenue and residential property tax revenue from those employees residing in Memphis and/or Shelby County.

Impact by Industry Type

As illustrated by the previous Tables 1 and 2, it becomes clear that manufacturing projects and corporate headquarters projects generate the highest impact in terms of fiscal revenues, employment earnings, direct and indirect output, and indirect employment. Recognizing that the level of impact of each of the case studies is largely dependant on the number of jobs it creates, it is also closely related to the type of job and level of compensation a job commands. Both the SFI and Medtronic operations created higher income jobs as compared to distribution operations. As discussed earlier, higher incomes translates into a higher level of retail demand and spending and a higher percent of home ownership, which helps to create a stable and healthy local economy. Also, manufacturing operations yields a higher direct and indirect output to the local economy on a per employee basis, contributing to the GDP.

Overall Impact

For most of the above analysis, local fiscal revenues were a focus. However, it is important to recognize that in addition to generating positive net fiscal revenues over time, these four PILOT case studies have and will continue to significantly contribute to the local economy. As an example, the combined Medtronic operations is estimated to contribute $4.3 billion (2005 $) in direct and indirect economic benefits to Shelby County over a 20-year period, creating over 1,500 direct jobs and over 1,100 indirect jobs. From this perspective, the approximate $15 million granted in public PILOT incentives over a 27-year period to Medtronic appears to be a small price to pay to attract, secure and grow such a quality company in the Memphis area.

In addition to the overall economic impacts, these PILOT projects also directly generate significant revenues at the State of Tennessee level through sales, franchise, and excise taxes, a portion of which will get directed back to the local governments to benefit the local residents.

SECTION 3: ***SUMMARY OF KEY STAKEHOLDER INTERVIEWS***

To understand the perspectives, missions, and objectives of the various stakeholders, and to gain a deeper understanding of the effectiveness of the PILOT Program as an economic development tool, the Consultant Team conducted 35 key stakeholder interviews, which ranged from the various PILOT issuing boards, City/County staff, local developers and real estate brokers, attorneys specializing in PILOTs, the Chamber of Commerce, PILOT recipients, businesses that chose to locate in competing markets, and local associations. A detailed list of all the individuals interviewed is provided as an attachment.

During these interviews, a number of common themes regarding the purpose, issues, and potential improvements to the PILOT Program were discussed. The highlights of these interviews are summarized below. ***Please note that the following section reflects the various opinions of the stakeholders interviewed and are not recommendations or views of the Consultant Team.***

Competing Markets/Market Barriers

It was discussed that communities in DeSoto County, Mississippi and in Arkansas, located in close proximity to the Memphis market area have recently become attractive to businesses in the last 5 – 6 years due to better roads, interstate, lower costs, and incentives. Residential development is also becoming stronger in these markets, which is building the available workforce in these markets.

Businesses have commented that they have found these other markets, particularly DeSoto County, to be more business friendly than Memphis. The incentives are more generous, simpler, and require less time and legal costs to secure incentives as compared to Memphis. Numerous times in the interviews it was noted that even with Memphis'/Shelby County's PILOT matrix rating system, there is a level of uncertainty as to what level of incentive will be approved and can be discouraging for businesses.

Headquarter companies indicated that one market barrier for Memphis is that it is very difficult to recruit white-collar professionals to the Memphis area. They typically have to recruit from smaller markets.

Memphis is still more attractive to the higher-end professional white collar/technical jobs as compared to Mississippi and Arkansas markets due to the higher end housing Memphis offers. However, if these markets begin to build high-end housing similar to South Wind, Memphis could also start losing these jobs.

Promotion of Regional Cooperation

Numerous times throughout the interviews it was discussed that the various municipal governments in the region should work together to promote regional cooperation rather than competing with one another for business. The ideal scenario would be to structure intergovernmental agreements, where the various governmental agencies in the region would only give incentives based on the net new development/employment to be created within the larger region. This would help prevent businesses from relocating from one locality to another. Mutual agreements between adjacent states and jurisdictions should be encouraged so as not to steal companies away as incentives expire in one locality.

Shelby County currently has a Memorandum of Understanding (MOU) with its suburban communities, where the County will only contribute incentives based on net new jobs. However, the suburban communities can still give away all the property taxes even if the company is locating from within the County but to a different municipality. This MOU should be improved to promote regional cooperation.

Suburbs versus City of Memphis

Collierville
Collierville is targeting headquarters and corporate/office developments. Limited industrial development is being pursued. Collierville administration indicated that Collierville has higher development costs than Memphis and other suburbs because they do not waive developer impact fees. Developers must pay for all infrastructure improvements. Companies are drawn to Collierville due to its location, growth and demographics/work force. Collierville is a highly desirable community with good public schools, $90,000 average household incomes, and is the 2nd fastest growing community in the State (43,000 population).

In spite of Collierville's high desirability, the town still uses PILOTs as an incentive tool to help continue expand the relatively young community's economic base.

PILOT Eligibility

There were a number of different views regarding whether businesses should be eligible for PILOTs based on job retention and/or new job creation.

New Companies Only

One school of thought was that PILOTs should only be offered to new companies entering into the greater Memphis market since it can easily be defended that new companies are adding to the economic base of the Memphis Area. There is a danger of opening the Pandora's Box if PILOTs are granted to existing companies.

Also, businesses that are dependant on the local market should not be eligible for PILOTs. Such businesses would include retail businesses and/or maintenance facilities. Since these businesses would be dependant on the local market trade area, there is no danger of them relocating to a different area.

Existing Companies

Others interviewed indicated the importance of extending PILOTs to existing companies looking to significantly expand either in capital investment and/or number of jobs. Even though investment in capital may not result in an increase in jobs, it would most likely make the business more competitive and enable it to retain its existing employment base. Job retention was viewed by the majority interviewed as equally important as new job creation and should be factored into the PILOT eligibility equation.

The majority was in agreement that existing companies who were physically expanding, resulting in an increase in employment should be eligible for PILOTs for the net increase of physical space, as currently practiced.

However, there is debate as to whether existing companies that need additional space but will not be initially increasing employment should be eligible for a PILOT. There have been instances where this has happened and because the company cannot secure a PILOT on the expansion space, they decide to relocate the whole operation to DeSoto County to take advantage of the lower operating costs and incentives. In this instance, Memphis loses out on any retained employees, as well as potential future growth of these companies. It was discussed that for a situation like this, a "but for" test may be more appropriate than the matrix to determine the appropriate level of incentive, which would outline the gap analysis needed to stay competitive with DeSoto County. Such a "but for" test would have helped retain businesses and employees within the Memphis/Shelby County.

"But For" Test

In all of the interviews we discussed the potential PILOT eligibility being dependant on projects satisfying a "But For" test, meaning but for the incentive (PILOT) the project would not be realized. This "But For" test could be constructed in multiple ways, such as the applicant proving that other out of state locations are also being considered and/or that without the PILOT incentive the project would not be financially viable and could not be constructed.

Of all those interviewed, only two stakeholders were in support of the idea. The others were against it for the following reasons.

1. About two years ago, a committee was formed to evaluate whether the City/County should adopt such a "But For" criteria. It was decided it was not in the best interest of the Memphis area due to Memphis' unique location directly adjacent to Mississippi and Arkansas, where companies could easily bluff regarding competing out of state locations. Also, the general opinion about only issuing PILOTs to deals that financially need it, would limit Memphis to the businesses that may be struggling or are start-up companies and exclude the headquarter companies, such as International Paper, Hewlett Packard, and FedEx, which Memphis desires.

2. There was also discussion that incentives are ultimately low on the criteria list for companies choosing site locations. Companies narrow site locations to a few cities based on criteria, such as accessibility, market, quality of life, workforce, weather, etc. Incentives are often the tipping point in deciding a location and can be used to win the company away from competing sites. Sees the PILOT as an "inducement" versus a "need" basis.

3. A general theme coming from the majority of the interviews was that the incentive process in Memphis needs to be more streamlined and predictable. The incentive processes in the other markets are much more straightforward, requiring less time and legal fees. There is a fear, that a "but for" test would add to the complexity, cost, and length of the incentive application process and discourage businesses from looking at the Memphis area.

4. Some of the stakeholders indicated they would have been in favor of a "but for" test about five years ago, because at that time PILOTs were treated more as an entitlement. But now with increased competition, PILOTs are necessary to stay competitive. Afraid that a "but for" test would only slow the process.

The two stakeholders who were in favor of it, believe that a "but for" analysis would provide an accurate measure as to what level of incentive is needed to stay competitive with the other markets and would enable Memphis/Shelby County to adapt to all types/variations of projects that may not fall within the existing PILOT eligibility matrix. This approach would build more flexibility into the decision making process.

Living Wage Requirement

The interviews completed indicated differing views on the subject of requiring a "Living Wage" minimum for PILOT eligibility as summarized below.

For Living Wage Requirement
A number of the key stakeholders interviewed believed that requiring a living wage minimum would be a positive step towards ensuring that the community would benefit from these new jobs and the projects would warrant a PILOT incentive. Without a minimum wage and benefits requirement, these jobs may be increasing public costs in terms of health and social services costs and should not be granted a PILOT to attract these jobs and additional public costs to the area.

Against Living Wage Requirement
On the other side, a couple of stakeholders believe the market should determine what the threshold wage should be and that the City should not enforce wage requirements. The belief is that as more jobs are generated, the labor force will decrease, and eventually the wages will increase to compete for the limited labor force. If the jobs being created are below the "living wage", it should be scored with "0" points on the matrix. These stakeholders believe that these businesses should still be eligible for PILOTs since these lower paying jobs are filling a niche need for the unskilled population.

Job Retention versus Job Creation

Currently there is controversy as to how to treat/score job retention relative to new job creation. The City/County IDB staff indicated that it is very difficult to record what is a “new” job versus a “retained” job, especially if a business has multiple site locations within the Memphis area. There is always the potential of the business to relocate existing jobs at one location to the new location that is qualifying for the PILOT and labeling these jobs as “new” rather than retained. There is no accurate way of identifying which jobs are new versus retained. Currently, the City has to simply take the applicants’ word. Because of this, it was discussed that the City should look at total employment at all locations of the applicant within the Memphis area to determine if employment has increased and if the company has met its PILOT employment obligations.

On the other side, some believe that companies should not be penalized for jobs lost on non-PILOT projects. In evaluating PILOT compliance/eligibility, jobs under the PILOT project should only be relevant. In order to stay competitive, businesses require new investment especially with manufacturing where a new production line may require new skill sets, causing current jobs need to be eliminated. If new investment would not happen, a company is at risk of not staying competitive and losing all jobs.

In addition, some stakeholders believe that the number of retained jobs should also be factored in determining the length and amount of the PILOT, since retained jobs are often as or more important than newly created jobs.

2nd Generation PILOTs

The 2nd Generation PILOT program is a relatively new that was adopted about 1.5 years ago. For the most part, the key stakeholders interviewed generally support the use of 2nd Generation PILOTS but for different reasons. The City/County staff saw this program as a way in which to revitalize parts of the inner city that have experienced disinvestment and declining property values. Before 2nd Generation PILOTs, existing buildings were not eligible for PILOTs; only newly constructed buildings. This new program, by allowing existing buildings to be eligible for PILOTs, was designed to encourage developers to rehabilitate older existing buildings and convert them into functional and productive use buildings. City/County staff indicated such instances have occurred but on a very limited basis.

Instead, the majority of the 2nd Generation PILOTs are not occurring in the inner city but rather on the periphery, where spec buildings are being constructed. In instances where spec building were completed by the end of the year and no tenants had been secured, developers utilized the 2nd Generation PILOT program to qualify the building the following year once the tenants had been secured. All the developers interviewed agreed that this program is key in helping to encourage spec development within the Memphis area, which is critical to keeping the Memphis area competitive in the distribution/warehousing sector. Many times business location decisions are very time sensitive and if a building is not available for immediate move-in, the business will easily locate elsewhere.

General PILOT Improvements

Listed below are general PILOT improvements that were discussed during the various key stakeholder interviews.

1. Improve marketing and publicity of the successes of the PILOT Program rather than just focusing on the negative PILOT participants or misrepresenting PILOT outcomes. This would help garner public approval for the program.

2. PILOTs should be targeted where aggregate property taxes are declining, which is an indication that these neighborhoods are in decline and need help to attract new investment. Such areas could include Frasier and Whitehaven areas. Program could be structured where only certain targeted areas could qualify for PILOTs or if projects are located in designated areas, they could be eligible for longer PILOT terms or score higher on the matrix.

3. Restructure the PILOT program so as to give it more focus in terms of geographic location and type of projects. Award points based on geographic area and type of industry.
4. Create a special program which targets corporate headquarters/regional divisions, where companies could be assured that they can secure incentives. Design the program so that it is more business friendly for the headquarter projects.

5. ***Jobs Plus Initiative.*** Suggested that the PILOT application should be revised to allow companies to apply/participate in the "Jobs Plus" initiative after the PILOT is granted rather than at the time of the application. The decision makers in a company regarding the use of minority contractors are typically not the same decision makers completing the PILOT application and often times these decision makers do not communicate with each other to make an informed and accurate assessment of the use of minority contractors at the time of the application. Jobs Plus participation should be evaluated at the first review for compliance and the company should be eligible for a PILOT extension if it has successfully participated in Jobs Plus.

6. ***Structure of the IDB Committee.*** Recently local politicians have been sitting on the IDB review committee. Some feel that even though the politicians do not have voting power, they are influencing board member decisions where there is potential for corruption. The general trend has been that projects are no longer being scored by the matrix but rather decisions are being made on an ad hoc basis, where businesses do not know what to expect.

   However, on the other side some feel that it was a good compromise to have politicians sit on the IDB committee. This is because the politicians had advocated to require approval of all PILOTs by City Council, which would have significantly lengthened the PILOT approval process, placing Memphis at a disadvantage compared to competing markets with more timely approval processes.

   No politicians are on the Collierville IDB evaluation board.

7. ***Environmental Issues.*** Some applicants pass on applying for PILOTs, since an Environmental Phase I is required for the City/County to take ownership of the property. If the properties are older, applicants could be scared of what may be found on the property resulting in significant environmental clean-up and liability costs. One solution could be to lengthen the personal property PILOT or find another type of incentive that can be used, where the City/County would not be required to take ownership.

8. ***Revenue Sharing.*** Suburban IDBs often ask Memphis/Shelby County IDB staff to assist with a County PILOT. The suburban community keeps all the closing costs and Shelby County does not get any of the revenues. Structure should be updated.

Matrix Scoring Revisions

Listed below are general suggested improvements to the PILOT scoring matrix that were discussed during the various key stakeholder interviews.

1. Should eliminate bonus points for locating in the City of Memphis because most PILOTs are in the City. Rather, the bonus points should be given to targeted areas of the City.

2. Pointing system should be revised to make more significance regarding the scale of jobs. Revisions could include:

    a. The matrix should measure the increase of new jobs based on the percent of the existing workforce. For instance, FedEx has over 1,000 employees, a 20 person increase is not all that significant for FedEx but a 20 employee increase for a 40-person firm is.

    b. Higher points should be given to projects reaching a certain job threshold, i.e. 50 jobs. This would eliminate assistance to the minor expansion projects.

    c. Set an eligibility threshold, where projects have to create at least 25, 50+ jobs, etc. to focus PILOT eligibility on the larger investment/development projects.

3. Should give more points to jobs that have benefits or no points to jobs without benefits.

4. Narrow the capital investment scoring categories where so many points are awarded based on every $.5, $1 million etc. is spent. Currently, capital investment categories are too broad.

5. Reconsider implementing the graduated PILOT structure, where the PILOT incentive is reduced in the later years. This had been eliminated in 1997 – 1998, mostly to simplify the administration of the PILOT program. But now City/County has improved tools/technology to account for graduated structure. The potential benefits would give the IDB flexibility in the amount of incentive offered. It could also result in a longer PILOT duration but with a reduced amount of incentive, which could potentially increase the length of lease rates and provide an increased incentive to stay in the community. Also, a graduated structure would help ease participants back into paying taxes.

Other Potential Incentives

During the key stakeholder interviews, a number of other potential incentives were discussed to help supplement the PILOT program and provide the City/County with additional tools to promote economic development within the region. These other potential incentives are described below:

1. ***Inner City Trust Fund.*** Such a fund could be created by dedicating a portion of the personal property tax freeze (e.g., 5 – 10%) or a portion of the PILOT payment, which could be used to help fund development deals in the City. This fund could be targeted to certain areas and/or hard to develop properties that are obsolete or have experienced environmental contamination.

2. ***Closing Cost Revenues.*** Currently the closing cost fees go into a special fund, where these funds can be used for various purposes. Theses revenues should go into a more structured fund, where eligible uses are related to economic development.

3. ***Broaden the Scope of Services.*** Economic development within Memphis could be more effective if the role of the IDB or Economic Development Department were widened. Currently it is very administrative in processing the PILOT applications. Could be more effective if it could engage in activities similar to Center City Commission (CCC), where it could acquire and assemble land. Currently CCC funds land acquisition through various sources (City, County, PILOT fees, DT Parking Authority, CC finance loan).

4. ***Granting PILOT extensions to pay for Infrastructure Costs.*** Agree to extend the life of select PILOTs if recipients agree to pay for needed infrastructure improvements.

5. ***Provide Upfront Funding.*** Upfront funding may be more effective in attracting businesses in the area as compared to property tax relief. Such funding can be more focused and directed to specific uses, such as building rehabilitation, infrastructure, site preparation, etc.

Downtown PILOTs

During the stakeholder interviews is was discussed how PILOTs are especially needed in the downtown area to help alleviate the extraordinary redevelopment costs experienced by downtown development projects as compared to other areas due to the following:

1. Aging and obsolete buildings
2. Aging and obsolete infrastructure
3. The increased costs of staging required for the downtown area

Incentives need to be made available to help provide the necessary gap financing to cover these extraordinary development costs. A particular obstacle to developing in the downtown area is the need to upgrade/replace the existing infrastructure. Given the City's current lack of resources to pay for these improvements upfront, it has been proposed to extend the life of PILOTs if the applicant agrees to pay for the needed infrastructure improvements. The length of the extension would be dependant on the amount of infrastructure costs being paid for the developer/applicant.

IDB versus Center City

There are two views regarding whether the two PILOT issuing boards are competing with one another. There was some discussion that the IDB should only focus on industrial projects and not issue PILOTs to other uses since some developers feel the IDB could be weakening the downtown by offering PILOT office deals outside of the downtown area. It was noted that the last significant downtown office deal was AutoZone. The Office market is weak in the downtown with $15.00 psf lease rates compared to $20 - $22 psf in the Poplar Corridor.

Others feel that IDB should not narrow its focus because there will always be certain businesses that do not want to be in the downtown and Memphis should be in a position to help secure these businesses. However, it was suggested that IDB should not be allowed to offer a PILOT to a business wanting to relocate from downtown and that PILOTs should only be offered to businesses relocating from outside Memphis.

Clawback Provisions

There were various opinions about the use of clawbacks. Most were in agreement that if a business was in default of its original obligations, the PILOT should be terminated or shortened. There were mixed opinions about actually having the company pay back taxes if in default or require a time commitment after the PILOT expires. Technically, as the program is currently structured, a time commitment should not be required since benefits should outweigh the costs before PILOT expiration.

There was discussion that if a company is in default of a PILOT criteria, the company should be rescored on all the categories rather than just the categories that they are default in. It could be possible that a company exceeded criteria in one category (i.e. capital investment) while deficient in another category, which could help zero out the deficiency.

To help enforce clawback provisions, it was discussed that the IDB needs to firm up reporting deadlines because currently too much time lapses while the company is in default.

Cost/Benefit Analysis

Stakeholders interviewed believed that PILOT process does not take into consideration all the applicable tax revenues that the project will generate, such as: franchise taxes, property taxes and sales taxes of new employees, raw material sales taxes, state sales taxes, related taxes of retained employment. Some stakeholders believe that State revenues should be considered, since it is likely that these tax revenues will eventually get back to the local level.

Benefits of PILOTs

During the interviews, general benefits of the PILOT Program were discussed. Such benefits include the following:

1. FedEx Corporate Campus – fueling Memphis' economy. The PILOT program helped make Memphis an attractive place to do business and help secure high paying professional jobs. In addition, FedEx campus has stimulated significant growth in the immediate area of the FedEx campus in terms of retail, hotel, and residential development.

2. PILOTs help fill vacant properties which, if left vacant, would simply "pull down" the market values of surrounding properties. This could have a cumulative affect, which could "pull down" the broader tax base, which could potentially require an increase in property tax rates to maintain local tax revenues at the same level.

Industrial Market Issues

About 10 years ago, lease terms were more long-term, averaging about 10 - 15 years in length. Currently, building owners are considered lucky if they can get a 5-year lease. Developers and building owners would welcome ways to lengthen lease terms but is not likely due to current business trends. Businesses are demanding shorter lease terms so they have the flexibility to change course as market conditions change. This is mostly relevant to distribution and not to manufacturing with heavy capital investment. Relocation decisions are not typically driven by incentives, but rather are driven by strategic industry logistic/market demand decisions.

Memphis has traditionally been a distribution market, capitalizing on its close proximity to FedEx and its facilities. However, over recent years, FedEx has begun to expand its operations into other markets such as Indianapolis, North Carolina, and Mississippi, resulting in Memphis losing its competitive edge. The warehouse/distribution business is very cost sensitive, where businesses operate on very thin margins and tax relief is critical on a per square foot basis to keep the businesses competitive. Because distribution facilities have minimal capital investment, it is advantageous for these businesses to relocate to areas that have lower business operating costs.

General consensus is that the rents for industrial space in the Memphis area have remained relatively flat over the last 10 years, while the net operating income on the buildings is decreasing. As rents stay flat, property taxes are on the rise which is creating a weak market in which to invest.

SECTION 4: *PUBLIC INCENTIVE TRENDS*

Introduction - Literature Review

As part of this Study, the Consultant Team conducted a literature review regarding the use of PILOTs, property tax abatements, and trends in business incentive packages and contracts nation-wide. These research findings, as highlighted below, along with the primary and other secondary research completed for this study, have helped formulate the Consultant Team's recommendations presented in Section1 of this report on ways in which to make the PILOT program more effective within the Memphis area.

The body of academic research related to the evaluation of economic development tools, including tax-related incentives, is relatively recent as the practice of offering location and retention incentives to businesses did not become common until the 1980s. Research can generally be categorized along the following themes:

- Inventory of incentive programs in use;
- Effectiveness of incentive programs in achieving economic development goals; and
- Policy suggestions to improve effectiveness of incentive programs.

Taken as a whole body of work, the statistical analysis evaluating the effectiveness of incentives has not been conclusive or consistent enough to be able to make across-the-board statements such as "all incentives work" or "all tax-based incentives are harmful". Academic review of the analysis exercise itself has indicated several reasons for this situation:

- The defined outcomes or measures of "economic development" vary from study to study.
- The sample set of communities and businesses where incentives are offered may be very diverse;
- Incentive programs may vary across communities in terms of local policy, incentive terms, base tax levels, etc.
- Many variables that can be hard to isolate can influence the local effectiveness of incentives, such as the macroeconomic business cycle, microeconomic business trends, changes in corporate strategy over an incentive's lifecycle, local culture, etc. Complex multi-variable econometric regression analysis can correct for this, but not all studies perform this sophisticated level of scrutiny.
- Data collection methods may rely on anecdotal feedback from a diverse group of economic development practitioners.
- Statistical analysis attempting to correlate the use of incentives with economic development success (as defined within a particular study) may only produce weak conclusions (not statistically significant, or only weakly significant).

Nevertheless, there are a number of well-respected studies and articles that pertain to the economic development environment within the Greater Memphis Area. Highlighted below are excerpts and main findings of a selection of the most applicable articles. A list of all the articles researched for this project is included in the Appendix of this report.

"Do Better Contracts Make Better Economic Development Incentives?"

Weber, R. (2002) "Do Better Contracts Make Better Economic Development Incentives?" Journal of the American Planning Association 68:1

The above article analyzes municipal attempts to specify and enforce reciprocal obligations for subsidized firms and evaluates whether the threat and/or enforcement of penalties is effective to influence subsidized firms to act in ways that promote the public's welfare. The articles findings are based on a survey of local and state officials and a textual analyses of redevelopment agreements and incentive contracts.

The article noted that all of the Midwestern municipalities and state governments interviewed attach some kind of accountability requirements to the various incentives granted. The accountability mechanisms govern performance standards such as job creation and retention, wage levels, length of operation, capital investment, and environmental standards. In addition, all of these governments attach penalties for noncompliance to at least one of their incentive programs.

The research completed for the article found that contracts, ordinances, and legislation that secure economic development benefits typically included one or more of the following four elements:

Cost-Benefit Analysis. A cost-benefit analysis enables a city to evaluate the long-term consequences of their subsidy programs by comparing the present value of anticipated public costs (e.g., foregone revenues and additional expenditures on services, such as schools and infrastructure) to the present value of expected benefits (e.g., increased jobs, revenues generated by new wage earnings and multiplier effects. This analysis can help the "public sector determine the 'tipping point' (less subsidy, more public benefits) at which the deal makes financial sense.

Performance Standards. All the Midwestern cities and states surveyed require firms taking advantage of at least one incentive program to create a specific number of jobs or maintaining employment at certain levels. Examples of performance standards that go beyond the typical job creation and retention targets include:

City Employees –The City of Chicago has stipulated that subsidized firms make good faith efforts to hire workers from within the city limits.

Job Quality Standards – A survey conducted by Good Jobs First (2000) found that over 66 municipalities, states, and counties applied job quality standards to companies that receive incentives, up from just 2 in 1989.

Wage Standards – Minneapolis and Indianapolis impose wage standards derived from either regional industry or occupational averages.

Job Linkage Agreement – In Minneapolis, subsidized firms are encouraged to sign a job linkage agreement, committing them to hire new employees through a network of placement and training community agencies. Subsidized firms are required to report on hiring and post job vacancies to the network's database.

Health and Retirement Benefits – The State of Ohio requires that subsidized businesses provide health and retirement benefits, as well as paid sick and vacation days.

Indianapolis Regional Memorandum of Understanding – Several cities and counties in Indiana signed the Indianapolis Regional Memorandum of Understanding in 1995, which commits them to granting incentives only to those employers who pay wages over a designated minimum and bars municipalities from poaching businesses from each other.

Monitoring and Disclosure. A number of monitoring and disclosure techniques are used by the cities and states interviewed as highlighted below:

The City of Minneapolis' Living Wage Ordinance (enacted in 1998) requires applicants for financial assistance to provide names of all programs they are applying to, workforce profiles, projections of future wages, and the total public cost of the assistance. This increased knowledge about a firm's actual cost structure and financing gaps, helps to overcome the problems of bluffing and shirking.

Indianapolis requires a notarized annual report of its subsidized companies and conducts spot audits on about 5% of its subsidized companies, in which a company has 24 hours to respond to a series of questions regarding the number of employees, wages, and capital investment.

Kansas City double-checks self-reported data from firms against information from the city's employee earnings tax. Companies are given a grace period of about 2 – 3 years to meet the specified standards.

Penalties for Noncompliance. A breach of contract can trigger a host of remedies and damages if performance goals are not met, which generally fall into the following four categories:

Recisions. Canceling a subsidy agreement if job and revenue projections are not met.

Clawbacks. Recovery of all or part of subsidy costs if performance goals are not met.

Penalties. Additional charges (e.g., the interest accrued on the public's investment) for nonperformance or relocation.

Recalibrations. Adjustments of subsidy to reflect changing business conditions.

Specific examples of penalties for non-compliance include:

Indianapolis places companies that have not met performance standards on probation for a year. If standards are not met during probation, the incentive will be canceled, and the company will have to repay the amount of the incentive already received equal to the percentage of their obligation they failed to achieve.

State of Wisconsin is authorized to increase the interest rates on its low-interest loans if a company is found to be out of compliance and to recapture abated taxes if the receiving company reneges on its commitments.

The general trend appears that public entities are moving away from "gift-type" arrangements and toward a system in which the public sector and firms bargain over the terms of the exchange and create incentives for contractual fulfillment. Summarized below is the article's research on whether these tightened contractual terms are effective in creating better incentives.

Do Better Contracts Make Better Incentives?

The article points out that it is very difficult to determine whether accountability provisions influence specific outcomes such as employment for two reasons. First, cities and states have just recently begun to adopt accountability mechanisms and secondly, the mere existence of these provisions in contracts does not necessarily mean they are enforced.

The article's research indicated that cities and states recognize that "job creation is more of a function of the demand for an individual firm's product and optimism about future orders based on a general upswing in the economy – not public mandates." In addition, "private companies enjoy a large amount of discretion in terms of corporate strategy, but in a competitive market, they also need to respond to market signals and adjust the size of their workforce based on demand for their products. In order to manage future uncertainty, managers attempt to rein in the factors they can control; debt levels, capital spending, overhead, and staffing. Unprofitable manufacturers facing stiff product competition from cheaper production sites cannot be required to retain or create a certain number of jobs."

Contract Language

In order to account for these uncontrollable factors, the article reports that cities and states have drafted contract language to provide loopholes and/or allow more flexibility. However, by including such vague language weakens the public sector's ability to enforce its public policy goals. Such examples include:

City of Chicago avoids defining specific standards of compliance. Rather, it states that subsidized firms are "strongly urged" to hire workers from the local vicinity.

The State of Ohio allows subsidized firms to breach the contract for infrastructure improvements when they are unable to meet job requirements because of market conditions.

The State of Missouri identifies industries that are particularly volatile and drafts special participation agreements to exempt these firms from penalties.

Measuring Quality

The article points out that it is difficult for governments to measure the quality of the "product" that they incentivize, since "economic development" is not well defined in contracts to measure outcomes or quality. Local governments are composed of multiple agencies, each of which has a different definition of economic development. For example, a local budget department may measure success of an incentive based on how much each job costs the city, while the department of planning may measure success on deal making and new construction. These two goals may often run contrary to each other.

The article points out that the most common proxy measures for evaluating an incentive's success are gross employment and income figures. However, these may not be the best measures depending on the type of job being created (i.e. low paying jobs) and who is being employed (i.e. non-city residents). Therefore, the number of jobs may be less important than the ***quality*** of the jobs created and whether they are filled by city residents. Long-term capital investment may also be a more appropriate performance standard since it is subject to less cyclical variation in markets for products than employment.

Responding to Noncompliance
The article indicated that approximately half of the surveyed cities and states had enforced at least one clawback in the last 5 years. Indianapolis was the front runner, having 30 companies to be out of compliance since 1993 – the year in which it established job goals and wage standards for all business incentive programs.

The article indicated, however, that all of the officials interviewed "…expressed that they had encountered some difficulties recouping monies and disciplining errant firms. In the minds of these officials, the costs of enforcement are prohibitively high, so high that they offset the expected public benefits and cut into the power of the subsidy as a location incentive. Litigation is used sparingly – mainly to punish egregious violators that have already left the state or city entirely. It is difficult, many interviewees commented, to penalize nonperforming firms that stay. Especially in those cities or states desperate for private investment, according to an official with the City of St. Louis, 'legal penalties undermine the whole point of economic development – which is to understand businesses and help them to stay in business'. This attitude, however, undermines the larger goal of supporting individual businesses: to provide benefits for residents. If the probability of enforcement is low, unfortunately, companies will less likely to provide these benefits."

The article also pointed out that state and local governments fear developing a reputation for aggressive behavior and an "anti-business" climate, which may put these governments at a disadvantage with their competing markets. However, article's research suggested that these fears may be overstated. If firms are aware of accountability provisions from the start of negotiations, formalizing the *quid pro quo* in a contract can actually clarify the expectations of both parties. If accountability mechanisms are clear and reasonable, firms may voluntarily repay the incentive if they renege on their promises, obviating the need for any formal legal enforcement.

Conclusions
Summarized below are the articles recommendations practices intended to enforce accountability mechanisms and improve the public incentive process.

During Contract Negotiations
- Conduct preliminary cost-benefit analysis of deal.
- Thoroughly screen company (i.e., due diligence).
- Specify expected outcomes (e.g., job creation) or design incentive to reward specific performance *ex post*.
- Define parameters of contractual fulfillment as well as specific remedies and monetary damages.
- Require company to verify competing offers.

- At onset of negotiation process, convey information about clawbacks and other penalties clearly.

When Determining Noncompliance

- Conduct yearly audits – preferably with third party or separate agency.
- Collect information through site visits and tax records as opposed to self-disclosure.
- Avoid undue sympathy for the underperforming company without clear understanding of general trends in product market.
- Require disclosure and analysis of financial documents to determine the cause of nonperformance.
- Allow for ”cure period” in which company has set time to meet standards.

When Penalizing Noncompliance

- Weigh cost of litigation against value of benefits.
- Counter “bad business climate” arguments with arguments about the fairness of a *quid pro quo* exchange.
- Settle for compensatory damages if specific performance cannot be induced.
- Ask for attorney’s fees to offset costs of litigation.
- Work with third parties (e.g., unions, community groups) to publicize noncompliance.

“Variations in Property Tax Abatement among States”

Dalehite, Esteban, John L. Mikesell, and C. Kurt Zorn (Indiana University, Bloomington). “Variations in Property Tax Abatement among States.” Economic Development Quarterly (19)2, May 2005. 157-173.

The above article provides a review of U.S. property tax abatement programs, comparing critical structural differences of the various programs across states, such as the awarding procedure; existence of claw-back, sunset, or sunshine provisions; purpose of abatements; abated property classes; abated property uses; special eligibility requirements; specific abatement mechanisms and schedules; and cost distribution arrangements between state and local tax districts. Highlighted below are the research findings of this article.

Methodology

The research completed for this article was completed in three stages. First, the inventory of tax abatement programs was created through the review of statutes and tax services for all 50 states. The second stage involved establishing state contacts to verify, correct, or expand on the information collected in the first stage. The final stage was verification from tax and development agency personnel to resolve any conflict or questions resulting from the previous stages.

Please note this article evaluated only stand-alone property tax abatement programs (SAPTAPs). Cities with programs that reduced taxing levels or provided indirect property tax relief were not included in this article.

Purpose of Abatements and Special Conditions for Awards

The article indicates that the general purpose of the vast majority of SAPTAPs is the promotion of economic development or redevelopment, or both. However, another use of the program is to achieve redistribution. For instance, the Illinois Leased Low-Rent Housing Abatement Program provides a tax abatement, reducing tax liability to provide lower rents to tenants.

The article points out that all states with SAPTAPs require the construction or expansion of improvements to land in order to receive tax benefits, with the goal to increase the property tax base in the future. However, this principle is not absolute. For instance, South Carolina and Oklahoma grant abatements to companies changing ownership in an arms-length transaction, which results in the retention of the company and its jobs without new construction taking place.

Other special conditions used by select states that trigger the award of abatements include:

- Capital investment thresholds
- Job or payroll increase thresholds
- Job retention conditions
- Increase in state exports (Alaska and Florida)
- Provision of a basic health plan to full-time employees (Oklahoma)
- Minimum average wage rates (Indianapolis)

The table below highlights the percent of states that use special conditions in awarding tax abatements.

Table 1: Special Conditions: Proportion of Adopting States

Condition Required	*Number of States*	*% of 35 States*
Job retention	**2**	**5.7**
Threshold increase in jobs/payroll	**8**	**22.9**
Threshold increase in investment or value	**18**	**51.4**

Please note that the majority of states have multiple SAPTAPs with varying program conditions, qualifying process and objectives.

Process for Granting Abatements

The article's research indicates that there is wide set of options for granting abatements from state to state, as well as from within-state variation. These options include local discretion, state discretion, joint local-state discretion, as-of-right, and public referendum.

Table 2: Type of Award Process: Proportion of Adopting States

Type of Award Process	*Number of States*	*% of 35 States*
Discretionary (local, state, or joint)	**34**	**97.1**
Local discretionary	**23**	**65.7**
State discretionary	**6**	**17.1**
Joint local/state discretionary	**8**	**22.9**
As-of-right	**7**	**20.0**
Public referendum	**3**	**8.6**

As highlighted above, the article's research indicates that the most common method of granting abatements is the discretionary award process in its different forms. Within-state variation also takes place. For instance the following states have an as-of-right process, in addition to a discretionary process:

- Connecticut
- Illinois
- Missouri
- New York
- Oklahoma
- Oregon

Only Alabama, Alaska, and Florida require a public referendum for some part of the process.

Scope of Abatements: Target Area, Property Class, Mode, Duration, and Amount

The tables below highlight the article's findings in terms of the variation of scope of abatement programs across the states. Of the 35 states with SAPTAPs, only 15 of them (42.9%) target specific areas. The benefits of targeting specific areas are discussed in the later table, *Advantages and Disadvantages of the Abatement Program Features.*

Table 3: Abated Property Classes: Proportion of Adopting States

Property Class	*Number of States*	*% of 35 States*
Improvements	**32**	**91.4**
Land	**16**	**45.7**
Personal Property	**24**	**68.6**

Table 4: Abated Property Uses: Proportion of Adopting States

Use	*Number of States*	*% of 35 States*
Commercial/tertiary	**29**	**82.9**
Industrial/manufacturing	**33**	**94.3**
Primary activities	**9**	**25.7**
Residential	**20**	**57.1**

Table 5: Mode of Abatement: Proportion of Adopting States

Mode	*Number of States*	*% of 35 States*
% of tax liability	**8**	**22.9**
% of value	**12**	**34.3**
% of value added only	**15**	**42.9**
Value freeze	**6**	**17.1**
Rate reduction	**1**	**2.9**
Reclassification	**1**	**2.9**
Payment in lieu of taxes	**3**	**8.6**
Deferral of tax payments	**4**	**11.4**
Reimbursement/incentive payment	**4**	**11.4**

Definitions of the various modes of abatement listed above are provided below:

Fraction of liability is a credit against property taxes owed.

Reimbursement or incentive payment is very similar, except that the full property tax payment is made and then the government reimburses a fraction.

Fraction of value is a temporary exemption or deduction from assessed value.

Fraction of value added is a temporary exemption or deduction of the value added by the new investment or expansion to the original value of land and improvements.

Value freeze generally means that property taxes continue to be levied on the amount of assessed value of land and improvements that existed before new investments were made. The main difference between this method and the two previous methods is that a value freeze does not operate as a deduction, but rather assessed value is set at a given level for a certain amount of time.

Rate Reduction. The article reports that only Michigan's Enterprise Zone Program uses rate reduction, where a 50% reduction of the rate that is applied to the increase in value of the property for 5 years from the date of certification.

Reclassification involves temporarily cataloguing property in a different use class to which either lower assessment ratios or lower rates are applied.

Payment in lieu of taxes (PILOTs) are negotiated amounts that are paid instead of taxes.

Deferral of payments has the main benefit of reducing the present value of tax payments for government and increasing liquidity for taxpayers.

Table 6: Maximum Duration: Proportion of Adopting States

Mode	*Number of States*	*% of 35 States*
25 years	**2**	**5.7**
20 years	**3**	**8.6**
17 years	**1**	**2.9**
15 years	**4**	**11.4**
12years	**3**	**8.6**
10 years	**21**	**60.0**
7 years	**1**	**2.9**
5 years	**12**	**34.3**
3 years	**1**	**2.9**
2 years	**2**	**5.7**
1 year	**2**	**5.7**

The article notes that there is a wide variation across states in the amount of abatement allowed, making it difficult to classify states according to the *"Amount"* criterion. Generally, the amount of the abatement depends on many factors that must be considered at the same time, as highlighted below:

1. Duration
2. Abatement schedule
3. Mode of abatement
4. Property class or economic activity
5. The difference in current levels of mill rates across states
6. Differences in depreciation schedules for personal property

Termination/Claw-back Provisions

Terminations and claw-backs are two approaches used to punish enterprises that fail to live up to the promises made in order to receive an abatement. The article notes that some states formally establish a termination clause in their statutes, whereas others do not. However, even when a termination clause is not formally established in statute, termination is inherent in the legal nature of the contract or award and in the case of noncompliance, the state or locality will always have termination as its legal recourse. Because the threat of termination is often not enough to motivate recipients to change their behavior, governments have begun to enforce claw-back provisions.

The article reported that 14 of the 35 states have mandated or enacted claw-back provisions in one form or other.

The article also makes special note that claw-backs are not necessarily established across the board in a particular state, but can be applied to select programs, or establish such clauses in the specific award or contract.

Which Governmental Units Bear the Cost of Abatements?

The article examines which governmental units bear the cost of the various tax abatement programs as summarized in the below table.

Table 7: Cost-Bearing Arrangement: Proportion of Adopting States

Arrangement	*Number of States*	*% of 35 States*
All overlapping localities	**16**	**45.7**
State and all overlapping localities	**7**	**20.0**
Awarding locality	**15**	**42.9**
School tax exclusion	**5**	**14.3**
Counties only	**1**	**2.9**
State reimbursement (to localities)	**6**	**17.1**

Advantages and Disadvantages of Program Features

Listed below is a table from the article, which summarizes its conclusions and identifies the advantages and disadvantages of the abatement program features.

Table 8: Advantages and Disadvantages of the Abatement Program Features

Feature	*Advantages and Disadvantages*
1. Special Conditions	Special conditions (threshold investment or job increases) may enhance prospects of achieving positive net benefits, especially where local governments fail to distinguish among applicants. First, the greater the condition, the larger the eligible firm. Large firms should be targeted because they are more likely to have alternative location options (Ross, 1952; Wolkoff, 1981). Seconds, the greater the condition, the larger the benefits, making it more likely that benefits will exceed costs. However, special conditions discriminate against smaller and local firms and may be considered inequitable.
2. Discretionary vs. as-of-right	Discretionary, flexible award processes enhance prospects of improving effectiveness and achieving net positive benefits because they afford local governments the possibility of tailoring awards to individual applicants. However, uniform awards (even if discretion is given) are empirically the norm; they are easy and cheap to administer and justify, and they reduce uncertainty to investing firms (Wolkoff, 1983). States could require some minimum differentiation among applicants in the enabling legislation.
3. State vs. local award process	Ross (1953) suggested that the administration of the abatement program may be best put in state hands where there is concern about low assessment agreements between firms and local governments.
4. Award process by referendum	Nunn (1994) suggested that abatements undermined local democracy. A referendum would certainly democratize the award process. Most states settle for unbinding public hearings and ex post facto communication to citizens. A referendum clause would limit the use and duration of abatement programs, which, according to Wassmer and Anderson's (2001) most recent findings, may be the most effective way to offer abatements.
5. Specific target areas	Designating specific target areas may be a crucial part of whether benefits of abatement programs exceed costs. It is recommended that blighted areas be targeted because a greater value will be placed on additional jobs created and because negative characteristics that discourage investment may be counteracted (Bartil, 1991, 1994: Wassmer & Anderson, 2001).
6. Land, improvements, and personal property	Considering evidence that abatements are at best partially and conditionally effective, abatements should be at least limited to property that increases the tax rolls of local jurisdictions. Therefore, land should be excluded and abatements offered only to improvements. Personal property abatements warrant special attention, given that personal property is movable and has a shorter life, compared to real property. In Indiana, despite a local

	award process, personal property abatements are ultimately handled by state authorities.
7. Commercial vs manufacturing	Most recent evidence indicates that manufacturing abatements are effective during the first years of a program but that commercial abatements are not effective at all (Wassmer & Anderson, 2001)
8. Mode of abatement	If abatements are truly an exchange, and not just relief, it makes sense to define incentives as a function of what applicants offer in return, typically value added (tax base) or jobs. Therefore, options such as a percentage of value added, value freeze, rate reduction, and reclassification (if the latter two are applied to value added) have the advantage of limiting abatement awards and enhancing prospects of achieving net positive benefits, all things equal. All other options (save deferral) have the potential of offering incentives incommensurate to benefits received.
9. Duration	Duration and mode of abatement together define the bounds of the incentive offered to each applicant. The longer the duration, the more generous the award. Duration of personal property should depend on the useful life of the asset. Again, legislatures should be mindful of the tendency to award uniform abatements that afford maximum allowable benefits. Finding ways of promoting the tailoring of awards to project costs and benefits is suggested.
10. Sunset provision	Given the evidence cited in #7, a sunset provision may also be an excellent way to enhance the effectiveness of abatement programs. Sunset provisions also afford the opportunity to evaluate the program.
11. Claw-back provision	There is recurring evidence that businesses do not always follow through with the stipulations of abatement awards (number of jobs offered, etc.) Therefore, a claw-back provision and its strict enforcement is a must-have to enhance effectiveness prospects.
12. Cost bearing	Four criteria or objectives that may imply or exclude each other have been used to distribute the cost of abatements: (a) to have awarding jurisdictions bear the costs, (b) to relieve jurisdictions that are more sensitive to the impacts of abatements, (c) to minimize the amount of incentive, and (d) to maximize the amount of incentive. Implementing (a) has the advantage of not affecting jurisdictions with no say in the process. Implementing (b) has the advantage of relieving jurisdictions that are heavily reliant on property tax revenues (typically school districts) from the fiscal stress (increase in both demand for services and deductions from the tax base), planning disruptions, and increased anti-tax sentiment that may be caused by abatements. However, achieving (a) or (b) also minimizes the size of the incentive and thereby achieves (c). The advantage of achieving (c) is that it may enhance the prospects of attaining positive net benefits. In contrast, establishing that all overlapping

	jurisdictions will bear the costs (implementation of d) will most likely not achieve (a) or (b) but will maximize the size of the incentive and decrease the prospects of achieving positive net benefits. A greater incentive may be more enticing to firms though harder on the finances of government and community.
13. State reimbursement	State reimbursement may contribute to (b) in #12. Also, the effect of this option is to decrease the percentage of investment that must be induced for a local jurisdiction to break even (Morse & Farmer, 1986). In any event, it translates into a state subsidy that may induce local jurisdictions to award abatements indiscriminately.

"Incentive Solutions"

Bartik, Timothy J. "Incentive Solutions." Prepared for Univerity of Minnesota Humphrey Institute "Reining in the Competition for Capital" conference, February 27, 2004.

This article evaluates how incentives in general can be beneficial, as well as wasteful, and identifies potential broad-based incentive reforms. Listed below are excerpts from the article highlighting the main points and conclusions.

What Makes Some Incentives Beneficial

The author concludes that some incentives are ***beneficial*** due to the following:

1. Increasingly footloose corporations are increasingly to some degree responsive to incentives.

   "Business production activities are increasingly free to be sited at a wider variety of locations, with cheaper transport of inputs and outputs, and easier use of communications and computer technology to coordinate the overall activities of the business at a wide variety of sites. Because businesses have many more sites that are acceptable options from a transport and communications perspective, businesses are much more sensitive to local costs, such as wages and taxes. Taxes and the incentives that offset them are more controllable by government officials than wages."

   The article also points out that some studies of the elasticity of business activity relative to local tax rates suggest that a reduction in taxes (as long as this is not financed by cutting public services) will increase business activity in the long-term.

2. Increased local employment rates yield social benefits (e.g. reduced need to provide safety-net/social services).

"Social benefits will be greater if local employment rates increase more, or local residents move up to higher-paying jobs to a greater extent, or if the local labor market is more depressed. An increasing local employment rate provides more earnings benefits to local residents, reduces the need for social services to the non-employed, and reduces the public service costs and environmental costs associated with increased population. An increase in higher-paying jobs that actually are obtained for local residents increases earnings benefits directly. In a more depressed local labor market, the non-employed will be more desperate for jobs and have lower reservation wages, and local infrastructure is more likely to be underutilized, which reduces the short-run public service costs associated with growth.

But policy makers should also be aware that social benefits of growth will be much reduced in low-employment labor markets, or if the new jobs pay low wages, or if few local workers are hired for the new jobs."

3. "Incentives allow state and local governments to intervene in business location decision-making to force businesses to recognize the social costs and benefits of their location decisions, including labor market benefits and fiscal benefits."

What Makes Some Incentives Wasteful

However, the article points out that incentives are often ***wasteful*** for two good reasons:

1. Local policymakers often over estimate the benefits of incentives.

   " Policymakers often optimistically assume all incentive offers are decisive. …[and] ignores the reality that only a portion of the new jobs go to local residents and the unemployed, and that new public expenditures will also be required."

2. The local debate over incentives is dominated by business interests, including local Chambers of Commerce, local newspapers, local banks, and local real estate developers.

   "From these groups' perspectives, the benefits of economic development are the increase in the value of their property holdings, including the value of their local business assets, and this increase in local capital values is closely related to the earnings and tax base increase of the new plant. Furthermore, the costs of the incentives, including the incentives that do not work, will be borne by a far wider group than just the local business community."

Incentive Reform Ideas

Listed below are incentive reform ideas as listed in the article:

1. Use incentives only for companies that use local labor and capital (questionable if possible);
2. Develop unique local assets (competitive advantages) that yield economic rents; businesses would not object to paying unabated taxes because of the benefits of locating in a particular area. One unique local asset could be a cluster of industries that increases productivity by resulting in more new ideas and a greater availability of a specialized workforce;
3. Lower business tax rates across-the-board (no special cases) – (would cause large loss of tax revenues);
4. Lower business taxes on new business operations (would cause short- and medium-term drop in revenues);
5. Be more selective in awarding incentives, by capping number of recipients or dollar amount (limits costs, but is hard for government to really know if the incentive is truly needed by the business);
6. Require greater transparency to the public on details of incentives and awards;
7. Approach economic development regionally, not within metro area as individual local governments (hard to do, especially when metro areas are multi-state);
8. Perform better cost-benefit analysis;
9. Emphasize quality of jobs, not just numbers;
10. Provide incentives upfront; businesses use high discount rates (~12%) which make consideration of future tax abatements irrelevant to corporate decision making that focuses on short-term; harder to recover incentives if firms do not achieve expected results;
11. Implement clawback or recovery terms – need to be clear;
12. Redesign incentives to focus more on the social benefits of business growth
    a. Social benefits come from increasing employment
    b. Target projects that hire locals, especially unemployed;
13. Pay incentive when benefit is delivered;
14. Focus incentives on worker training and infrastructure;
15. Prohibit or restrict local incentives at the federal level (may be ineffective if states substitute other incentives);
16. Provide federal funding for distressed areas, such as with Empowerment Zones, New Markets Initiative;
17. Regulate incentives internationally; and
18. Include broader public participation and debate.

"The Price of Growth"

Flavin, Phil. "The Price of Growth" American City & County (November 2003), 24.

An Effective Alternative to Using Government Budgets to Fund Economic Development Initiatives

This article highlights the successful approach used by Henry County, Ohio to provide flexible and attainable funding without relying on local government budgets to help attract and maintain business development in the community. The conduit in providing such funding is the Community Improvement Corporation of Henry County, Ohio (CIC). CIC is a non-profit, public-private 501 C-6 Corporation that must contain at least six elected local officials on its 15-member board. It manages an Enterprise Zone program that offers property tax abatements for businesses moving into or expanding operations in the 30,000-resident county. The way in which CIC generates funds for economic development projects, such as public infrastructure projects, new building construction, building rehabilitation, and site preparation, etc, CIC requests companies to make the following donations:

- Donations equal to 10 percent of the abatement value
- Donations to local schools equal to roughly 32 percent of their incentive packages

The article states that since the program began in 1998, no company has declined to make the donations. In 2003, the Henry County fund was capitalized at about $1.7 million, the Napoleon fund at $800,000, and the village fund at less than $150,000.

The Use of Donations/Funds

Depending on the location of the company's facilities, the 10 percent donation is deposited into one of three development funds managed by CIC that pay for infrastructure improvements: one for Napoleon, Ohio; one for unincorporated Henry County; and another for the county's villages. There is great flexibility in how CIC can use these funds. Such eligible uses include:

- Award grants
- Issue loans
- Commission studies (i.e. feasibility studies for infrastructure needs)
- Fund on and off-site infrastructure projects

Also important to note is that due to its public-private status, CIC does not have to conduct competitive bidding to spend its money which helps expedite the development process.

Project Examples

Listed below are examples of the different types of projects CIC helped fund.

1. Used fund money to repay a state loan to Henry County that financed a $470,000 water line for a new distribution facility
2. Awarded a $125,000 grant to Napoleon to build a road for a new business. The grant allowed the city to receive additional state dollars for the project.
3. Granted $3,000 in fund money to a business to upgrade its electrical service.

"Setting Your Sites: Just Deserts"

5. Chapman, Dan. "Setting Your Sites: Just Deserts." World Trade v5n7 (August/September 1992), 84-87.

United Airlines' Incentive Package

The above article examines how major companies often position themselves to get the best incentive package possible by creating bidding wars between various states, even when some locations are not true contenders but are only being used to get the best deal possible. For instance, the article reports that United Airlines in 1991 called Denver, Louisville, Oklahoma, and Indianapolis to the table to bid on an expansion project. In the end, Indianapolis was chosen by United Airlines. The incentive package alone was not the influencing factor but also everything from quality of life to proximity to United's headquarters in Chicago and Indiana's willingness to train United's new workforce.

BMW's Incentive Package

Another incentive package case study that the article reported on was the billion-dollar , 2,000-employee BMW production plant, which was awarded to South Carolina. To win this project, state and local governments offered roughly $130 million in incentives, of which approximately $71 million were in the form of tax incentives, including property-tax abatements, credits for full-time jobs and certain sales-tax exemptions. Also included in the package is the land, where BMW is renting 900 acres from the State for $1 a year for 50 years. South Carolina also gave BMW free, customized, pre-employment training (including an on-site learning center), airport and highway improvements, sewer and water lines, and even hand tools.

The article reports conflicting opinions on the appropriateness of such a large incentive package. There are some critics that label South Carolina as "shortsighted" or very charitable", while there are other economic development professionals that believe South Carolina will someday recoup its generous incentive and abatement package in the form of high-paying jobs, an increased tax base and spin-off industries that will add jobs and revenue to the local economy.

Location Factors

The article reports that in spite of these very large incentive packages being offered, site-selection experts insist that incentives are not the most important factor in the site-selection process. Simple, pragmatic business needs such as market access, labor supply, education system, training, and quality of life factors will strongly influence business location decisions.

In support of this argument, one can use the State of North Carolina as an example. North Carolina, where it is against the law to offer tax abatements, puts to rest the belief that governments need lucrative financial incentives to lure businesses. The article reports that within the four of the last five years, North Carolina has led the nation in the amount of new manufacturing investment. Ways in which North Carolina has done this is through worker-training program incentives, low interest loans, job tax credits, and/or industrial revenue bonds. The article reports that employee training is especially important to businesses, since companies recognize that they will need to train and retrain workers throughout the life of the business and welcome any help in this area.

"The Policy Shift to Good Jobs"

6. Pintur, Anna. "The Policy Shift Towards Good Jobs: Cities, States and Counties Attaching Job Quality Standards to Development Subsidies", Good Jobs First, 1311 L Street N.W., Washington DC 20005, November 2003

The above report is the result of ongoing work by Good Jobs First, a national clearinghouse tracking best practices in economic development, building off of previous studies completed in 1994 and 2000 which evaluated incentive packages that required job quality standards.

Given the detailed nature of this report, presented below are excerpts of the report's executive summary. The complete article is provided in the Appendix of this report.

Executive Summary

A national survey by Good Jobs First finds that the number of economic development subsidies with job quality standards is continuing to rise sharply, and that standards are becoming an everyday tool for effectively targeting subsidies to businesses that create high-quality jobs. There are now at least 116 state programs with standards and 49 standards that apply to local subsidies, often covering multiple programs.

Standards Increasing in Popularity

At least 43 states, 41 cities, and 5 counties – a total of 89 jurisdictions – now attach job quality standards to at least one development subsidy. This is a net increase of 6 states, 16 cities, and 1 county since 2000 when this research was last published. This is a dramatic increase from 1994, when the book *No More Candy: States and Cities Making Job Subsidies Accountable* identified only 6 jurisdictions using this tool.

Standards are being attached to every type of subsidy program, including tax credits, training programs, industrial revenue bonds, loan programs, enterprise zones, and tax increment financing (TIF). At the local level, 34 of the 46 jurisdictions have adopted standards through living wage laws, which usually cover most or all types of assistance provided by the city above a certain dollar amount.

Wage Standards versus Benefit Standards
Wage standards continue to be the most common requirement. All but three states and two cities included in this report have at least one program with a wage standard. Wage standards vary greatly, with those that are market-based tending to be higher than those pegged to poverty measures such as minimum wage or poverty line. Market-based wage standards are used in the majority of state programs, while poverty-based wage standards are more common at the local level.

Standards that mandate employer-provided healthcare benefits are also on the rise. Two-thirds of states and 80 percent of cities with standards either require health benefits or encourage coverage by allowing benefits to count towards wage requirements.

Business Acceptance of Standards
The vast majority of development officials interviewed agree that job quality standards do not adversely affect business climates. Only 16 of the 119 officials interviewed had heard complaints that job quality standards negatively affect development efforts.
Most officials reported that there had been ‘no problem,’ ‘no reaction,’ or ‘no complaints’ when asked how employers have reacted to wage standards. Health benefit requirements cause even less of a stir.

Positive Impact of Standards
A number of officials reported that subsidies with standards have a positive impact on their region’s development efforts. They described standards as an important tool for targeting subsidies in ways that create high-quality jobs, thereby avoiding the ‘hidden taxpayer costs’ (e.g., food stamps, Medicaid, and the Earned Income Tax Credit) that accompany poverty-wage work.

Monitoring of Wage Standards
Officials also report very few problems in monitoring and enforcing wage standards. Nearly all subsidy programs have systems for monitoring compliance in place, and most appear to be using them.

A significant minority of jurisdictions (20 percent of local governments and several states) do not formally monitor compliance after deals occur, relying on companies to keep their word and employees to complain if problems arise. Such monitoring arrangements are often the result of staffing shortages and budget cuts that leave agencies without the resources they need to monitor compliance effectively. In a number of programs, an information gap exists between those administering the subsidies and those monitoring compliance, reducing the ability of officials to enforce standards and evaluate the success of job quality requirements in raising the standard of living for workers.

Barriers to Monitoring Health Benefit Standards

While wage compliance is generally well-monitored, health insurance coverage rates are not. Less than half of the officials interviewed could provide information on the number of employees covered by health insurance or the number of employers providing insurance. Among the 27 local jurisdictions that give employers a higher wage/benefit choice, 22 could not provide any information, or even estimates, about what share of employers chose to provide benefits versus how many chose the higher wage.

This is due in part to the structure of healthcare requirements: programs that require companies to *offer* coverage do not require employees to *enroll,* while programs in which employers have a choice between providing benefits and paying a higher wage do not ask whether health insurance is provided once wage standards are met. State and city officials have done very little to evaluate how effective these programs are in increasing the number of insured workers. This lack of meaningful monitoring of healthcare outcomes is the one truly negative finding in the survey.

SECTION 5: ***COMPETITIVE COST BUSINESS ANALYSIS***

Introduction

The Competitive Cost Analysis ("Analysis") and Report summarize our findings with respect to the cost of doing business in Memphis/Shelby County as compared to four markets which are in direct competition with Memphis for business expansion and/or relocation. The competitive markets focused on in this analysis are DeSoto County, Mississippi; Indianapolis, Indiana; Louisville, Kentucky; and Nashville, Tennessee. The competitive markets and industries were selected based on input from the Memphis and Shelby County Division of Planning and Development. This section contains the following topics:

- Cost of Doing Business
    - Operational Costs
    - Tax Costs
- Industry Analysis
    - Distribution
    - Bio-Medical
    - High-Tech/Light Industry
    - Professional Services
- Overall Conclusions
- Detailed tables located in Appendix

Cost of Doing Business

The cost for any business to operate in a specific location includes a many far reaching items and is dependent on industry and business-specific variables. In this study, we have focused on a few standard costs. This set of costs is by no means exhaustive, but represents the most typical and substantial cost items and establishes criteria on which to compare the selected markets.

In operating a typical business, the costs of land and building, labor, utilities, and taxes are major costs incurred. Although we recognize that there are more costs incurred in operating a business, we believe that benchmarking the costs delineated above will provide an indicator of the relative cost of doing business in each location. The amount of costs incurred is in direct relation to each industry and company's specific facts. In order to gauge the cost of doing business in each location, we developed a set of assumptions for each industry. The cost of doing business in Memphis was calculated and then used as a baseline for comparison against the other competitive locations.

Assumptions

Standard assumptions were determined with each industry in mind. The standard costs were determined by researching tax structure, industry standards, and both primary and secondary sources. The assumptions were held constant, and each location's costs, tax structure, and laws were applied to determine the cost for a typical business with the same facts to operate in each location. The basic assumptions are as follows:

Industry		Distribution		Bio Med		High Tech		Professional Services
Square footage		200,000		50,000		100,000		50,000
Annual FTI*		$3,500,000		$2,800,000		$5,600,000		$ 3,500,000
Annual Taxable Purchases		$ 3,000,000		$ 3,500,000		$ 8,000,000		$1,500,000
Annual Capital Stock		$14,100,000		$10,950,000		$21,600,000		$14,550,000
Annual Net Profits		$ 3,500,000		$ 2,800,000		$ 5,600,000		$ 15,000,000
Employees		135		70		135		200

* FTI (Federal Taxable Income)

Distribution
It is assumed that a typical distribution facility, targeted by Memphis/Shelby County, is approximately 200,000 square feet, employs 135 employees, earns federal taxable income of $3,500,000, and has taxable purchases of $3,000,000 annually.

Bio-Medical
It is assumed that a typical bio-technology facility, targeted by Memphis/Shelby County, is approximately 50,000 square feet, employs 70 employees, earns federal taxable income of $2,800,000 and has taxable purchases of $3,500,000 annually.

High-Technology/Light Industry
It is assumed that a typical high-technology/light industry facility, targeted by Memphis/Shelby County, is approximately 100,000 square feet, employs 135 employees, earns federal taxable income of $5,600,000, and has taxable purchases of $8,000,000 annually.

Professional Services
It is assumed that a typical professional services facility, targeted by Memphis/Shelby County, is approximately 50,000 square feet, employs 200 employees, earns federal taxable income of $3,500,000, and has taxable purchases of $1,5000,000 annually.

Operational Costs

Cost of Labor
The cost of labor is a function of the number of employees at the facility and the wage rates for the industry. The number of employees for each industry is discussed above and was based on industry averages relative to facility size. The wage rates were determined based on Department of Labor statistics. The Department of Labor publishes average wage rates for Metropolitan Statistically Areas ("MSA") as defined for censuses. The Department breaks down wage rates into many different categories, including hourly mean rates by position. The wage rates used to determine labor costs are based on the following category assumptions for each industry:

- Distribution- Transportation and material moving occupations. OCC Code 53-0000.
- Bio-Medical- Life, physical, and social science occupations OCC Code 19-0000.
- High –Technology/Light Industry- Production Occupations. OCC Code 51-0000.
- Professional Services- Business and financial occupations. OCC Code 13-0000.

The wage rates associated with these categories were determined for each location and applied against the number of employees in each industry model. It was assumed that a work year is 2,000 hours for purposes of annualizing the labor costs.

Memphis and DeSoto County are located within the same MSA, and thus, in the model, have the same labor cost across all industries for these two locations. Based on interviews and other research, the DeSoto rates may be slightly higher in reality. To account for the fact that Mississippi imposes an individual income tax while Tennessee does not, some companies in DeSoto County pay their employees higher wages to cover the individual employee's tax costs. This was not taken into account in our quantitative analysis, but is a factor to be considered.

A summary of the **average labor rates** is as follows:

Location	**Distribution**	**Bio Med**	**High Tech**	**Professional Services**
Memphis, TN	$ 13.40	$ 24.62	$ 13.41	$ 26.52
DeSoto County, MS	$ 13.40	$ 24.62	$ 13.41	$ 26.52
Indianapolis, IN	$ 13.78	$ 27.03	$ 15.59	$ 25.00
Louisville, KY	$ 13.42	$ 22.35	$ 15.60	$ 24.71
Nashville, TN	$ 13.18	$ 23.16	$ 14.92	$ 24.63

Cost of Land/Building
The cost of land and building is a function of the size of the facility and the lease price per square foot. The size of each industry's facility is discussed above and was based on industry standards. We consulted Conway Data regarding new plant construction/relocations. Conway Data is a company which compiles data on relocations, expansions, and new business locations throughout the U.S. Based on their information, we were able to determine the average size facility each type of industry requires.

Lease prices for each industry and market area were based on CB Richard Ellis local market reports, as well as information supplied by local chamber of commerce and/or the brokerage community in each location. In some cases, there was not a large amount of data on specific industries. The high-tech/light manufacturing industry was especially difficult in determining average lease prices since this sector is typically build-to-suit projects. Due to the lack of available lease-rate information for the high-tech sector, we assumed for this exercise that the average high-tech lease rates would be a mid-point between distribution and bio-medical lease rates.

A summary of the lease prices per square foot is as follows:

Net Building Lease Rates per Square Foot

Location	Distribution	Bio Med	High Tech	Professional Services
Memphis, TN	$ 3.00	$ 6.00	$ 4.50	$ 16.66
DeSoto County, MS	$ 3.00	$ 7.00	$ 5.00	$ 10.00
Indianapolis, IN	$ 2.50	$ 5.50	$ 4.00	$ 15.00
Louisville, KY	$ 3.07	$ 6.00	$ 4.54	$ 17.18
Nashville, TN	$ 2.75	$ 12.00	$ 7.38	$ 17.00

Memphis's distribution lease rate represents a blanket average rate. There are some distribution centers which use higher technology in Memphis which command higher lease rates.

Nashville has a strong bio-medical sector and therefore ample data on bio-medical lease rates. This information was limited in other markets. The more developed nature of the industry in combination with the smaller space requirements of bio-medical companies work together to command the higher lease rates shown above.

Cost of Utilities

Utility costs are a function of the amount of utility usage and rate per usage. The amount of usage we have estimated based on industry standards is as follows:

Estimated Utility Usage by Industry Sector

Utilities	Distribution	Bio Med	High Tech	Professional Services
Electricty Usage (KwH/mo)	60,000	60,000	60,000	30,000
Gas Usage (therms/mo)	100,000	100,000	100,000	1,000

Gas rates are shown at Mcf (1,000 cubic feet of gas). Electricity rates are shown at cents per KwH (kilowatt per hour). A summary of the rates is as follows:

Gas Rates

Location	Distribution	Bio Med	High Tech	Professional Services
Memphis, TN	5.54	5.54	5.54	6.44
DeSoto County, MS	4.51	4.51	4.51	4.51
Indianapolis, IN	5.33	5.33	5.33	5.33
Louisville, KY	7.35	7.35	7.35	7.35
Nashville, TN	4.97	8.06	8.06	8.06

Electricity Rates

Location	Distribution	Bio Med	High Tech	Professional Services
Memphis, TN	5.78	5.78	5.78	8.32
DeSoto County, MS	5.38	5.06	5.06	5.38
Indianapolis, IN	4.51	4.51	4.51	4.51
Louisville, KY	3.80	5.83	3.80	5.83
Nashville, TN	5.40	7.51	5.40	5.40

Tax Costs

In determining tax costs associated with each location and industry, we focused on corporate income and franchise taxes, sales taxes, property taxes, utility taxes, and any other unique and material taxes imposed at the local level.

Corporate Income Tax

Comparison of Starting Point

In determining the state corporate income tax liability for each industry and location, the general starting point is federal taxable income ("FTI"). FTI was estimated based on averages per each industry. Each state has its own state specific modifications to FTI. Some typical modifications include exclusion of interest income, bonus depreciation addback, other depreciation adjustments, and state tax addback. In the interest of simplicity, these calculations do not include such modifications. In all likelihood, the comparison of such state specific modifications would be immaterial to the purpose of this analysis.

Apportionment

State modified FTI is then apportioned to each state based on the state's particular apportionment scheme. Most states apportion income based on a three factor apportionment formula. The three factor apportionment formula computes activity in the state based on the company's ratio of sales, property, and payroll in the state to its total sales, property, and payroll everywhere. Some states evenly weight the three factors. Others more heavily weight the sales factor. More heavily weighting the sales factor has an effect on what types of businesses will have higher apportionment and thus higher tax liability.

While we did not take apportionment formula differences across the states into consideration when modeling the competitive cost analysis, factor weighting will have a practical impact on the cost of doing business for each industry. The differences and the general effect are summarized as follows:

Memphis, TN; Indianapolis, IN; Louisville, KY; and Nashville, TN all use the three-factor formula with double-weighed sales. This scheme favors manufacturers and other types of industries with heavy building and/or machinery and equipment rather than professional service type industries with more in-state sales than in-state property. Property is weighted in the apportionment factor to a lesser extent, thereby taxing capital intensive businesses to a lesser extent. Service providers have virtually no capital and high sales revenues. Therefore, relative to their business in the state, service providers bear a greater tax burden under this type of apportionment formula.

DeSoto County, MS uses a one-factor sales formula for service companies, an evenly weighted three factor apportionment formula for manufacturers selling at wholesale, and a three factor double weighted sales formula for manufactures selling at retail. As such, the system takes each industry into account and maximizes in-state apportionment of each. Therefore, the resulting tax cost is “maximized” for each industry relative to apportionment.

Income Tax Rates

Once state taxable income is modified and apportioned to each state, the state income tax rates are then applied against apportioned state taxable income. Each state promulgates its own income tax rate. Below is a table of state income tax rates for the selected states:

Location	***Income Tax Rates***
Memphis, TN	6.50%
DeSoto County, MS	5.00%
Indianapolis, IN	8.50%
Louisville, KY	8.25%
Nashville, TN	6.50%

Sales Tax

Taxable purchase assumptions detailed above were based on industry averages. The taxable purchase amounts are then applied against the sales tax rate to determine sales tax liability in each state. Each state also allows for various exemptions from sales tax. However, major exemptions for industries such as manufacturing are substantially similar. Therefore, the major variable is the sales tax rate as it relates to sales tax liability. A summary of the rates follows:

Location	*Sales Tax Rates*
Memphis, TN	9.25%
DeSoto County, MS	7.00%
Indianapolis, IN	6.00%
Louisville, KY	6.00%
Nashville, TN	8.00%

Property Tax
The assessment process involves several steps. First, the assessor's office establishes the fair market value ("FMV") of the property. The FMV is the most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to a fair rate. The FMV is determined by any number of factors including, but not limited to: property location, age, type, and condition of facilities and infrastructure.

Second, the "assessed value" is calculated by multiplying the property's FMV by an assessment rate. In some cases, the property's assessed value is multiplied by an equalization factor to determine the equalized assessed value ("EAV"). The equalization factor is used to ensure that property is assessed consistently throughout the state.

Finally, the assessed value or EAV, as the case may be, is multiplied by the property tax rate to determine the tax for the property.

The various jurisdictions assess industrial and commercial real property and personal property at the following **assessment rates**:

Location	Real Property	Personal Property
Memphis, TN	40%	30%
DeSoto County, MS	15%	15%
Indianapolis, IN	100%	100%
Louisville, KY	100%	100%
Nashville, TN	40%	30%

The property tax rates for each jurisdiction are as follows:

Property Tax Rates

Location	Real Property	Personal Property
Memphis, TN	7.270%	7.270%
DeSoto County, MS	12.64%	12.64%
Indianapolis, IN	2.420%	2.750%
Louisville, KY	1.211%	0.150% / 1.76%*
Nashville, TN	4.580%	4.580%

*Note: Louisville imposes a .150% tax rate on manufacturing property and a 1.758% tax rate on other tangible personal property.

Utility Tax
DeSoto County is the only location in the analysis which imposes a utility tax. The tax is imposed at the rate of 1.5%. In order to determine the tax, utility charges are applied against the 1.5% rate.

Other Taxes
All of the locations in this analysis, other than Indianapolis, IN, also impose capital stock/franchise taxes and/or net profits taxes. These taxes are imposed at the state level. For purposes of the analysis, we assumed that the capital is equal to 30% of gross revenue and net profits are 7% of gross revenue for distribution, bio-medical, and high-technology industries and 30% of gross revenue for the professional service industry.

Capital Stock taxes are based on the capital employed by a company in the state. Capital stock includes but is not limited to items such as capital stock, surplus, borrowed money, and intercompany accounts. The state portion of capital is determined by applying the state apportionment formula (discussed above) to the company's total capital.

Net profits/license fees are taxes based on the portion of net profits from activities conducted in the state. Again, a state specific apportionment percentage is used to determine the portion of activities conducted in the state.

Incentives

Each location offers incentives for development which potentially decrease the cost of doing business in the relevant location. Incentives may include credits against taxes, abatement of taxes, financial aids, and grant monies. The incentives are sometimes targeted toward certain industries and/or certain geographical areas. Memphis predominantly uses the PILOT program as its major incentive. The competing locations employ a variety of incentives to development. Without specific incentive negotiations, it is difficult to determine what exact incentives would be awarded in each location and to quantify the dollar value of such incentives. However, the programs offer different easily ascertainable benefits which we analyze on a location by location basis. Following is a summary of the various incentives offered in each location.

DeSoto County, MS

- R&D Credit- Companies creating new R&D jobs are eligible for state income tax credit of $1,000 for 5 years for each new R&D job created.

- Headquarters Credit- Companies locating headquarters in DeSoto are eligible for state income tax credit for 5 years $1,000 for each new headquarter job created and full sales tax exemption for purchases of construction materials, machinery, and equipment for headquarters facilities.

- Property Tax Exemption- 10 year exemption from real and personal city and county property taxes for new companies locating in DeSoto County.

- Freeport Warehouse Tax Exemption- Companies locating in DeSoto are eligible for an exemption of all property taxes on finished goods distributed outside of the state.

- Mississippi Advantage Jobs Incentive Program- Companies that creates at least 25 jobs which pay 125% of the standard county wage may receive a cash rebate of up to 4% of the gross payroll expense.

- Job Tax Credit- Companies that create 20 jobs are eligible for income tax credits of $500 per employee for five years.

- Mississippi Rural Economic Development Assistance Program -
  Companies using IRB financing are eligible for their income tax liability to be reduced by the amount of debt service paid during the year up to a maximum of 80% of the income tax liability.

- Local Industrial Revenue Bonds - Tax exempt or taxable IRBs to finance new or expanding industrial enterprises. Facilities financed by these bonds are exempt from property taxes for 10 years and exempt from most sales and use taxes on construction materials.

- DeSoto County Sales Tax Exemption- 50% sales tax exemption for purchase of construction materials, machinery, and equipment.

- State Industrial Revenue Bonds - IRBs issued by the state can be used to finance manufacturing projects and their warehousing areas, major transportation and communication facilities, most health care facilities, and mineral extraction and processing projects.

Indianapolis, IN

- EDGE Credit – Companies creating new job are eligible for an income tax credit of employee income tax withholdings for up to 10 years.

- Hoosier Business Investment Tax Credit- New or expanding companies making investment in the state are eligible for an income tax credit up to 10% of the company's qualified capital investment.

- Certified Technology Park Program- Companies located in Indianapolis' technology park are eligible for assistance for land and building economics. Sales and income tax increment generated in the park may be reinvested in the area for infrastructure, acquisition, demolition, construction, and other public improvements.

- R&D Credit- Companies incurring research and development expense are eligible for and income tax credit of up to 5% of R&D expenses.

- Enterprise Zone Property Tax Credit- Companies located in enterprise zones are eligible for a personal property tax credit in a negotiated amount.

- Brownfield Grants- Companies located in brownfields are eligible for a grant of up to $35,000 for Phase I and II environmental site assessments for brownfields.

- Loan Guarantees- Companies which create jobs are eligible for loan guarantees for financing land or building acquisition and improvements, infrastructure, machinery, equipment and working capital for up to $300,000.

- Training Funds- Companies proving training and retraining to employees are eligible for grants for reimbursement of training costs for up to 50% of training costs incurred.

- Industrial Development Grant Fund- New and expanding businesses are eligible for grants for the necessary infrastructure. The grant amounts are negotiated.

- Property Tax Abatement- New or expanding companies are eligible for abatements for real and some personal property taxes. This incentive is negotiated.

- Tax Increment Financing- TIF revenues may be used for eligible costs in order to develop an area.

- Façade Grant Program- Companies may receive a grant of up to 50% of total costs, not to exceed $10,000 for façade improvement work.

Louisville, KY

- Manufacturing Tax Moratorium- New or expanding manufacturing companies may receive up to 5 years of property tax abatement.

- Property Assessment/Reassessment Moratorium- New or expanding companies are eligible. The added value of improvements with a life of 25 years or more are not assessed and are deferred for 5 years.

- Brownfield Redevelopment Loan Program- New companies are eligible for low interest financing for the acquisition, assessment, and remediation of properties for industrial use.

- The Skills Training Investment Credit – New or expanding companies are eligible for a credit for up to fifty percent (50%) of the approved costs for occupational and skills upgrade training costs against income tax, limited to $500 per Kentucky resident employed not to exceed $100,000 per company per biennium.

- Kentucky Rural Economic Development Act -For new and expanding manufacturing projects in qualified KREDA designated counties. Companies with projects approved under KREDA may potentially receive state income tax credits and job assessment fees for up to 100% of their capital investment for up to 15 years on land, buildings, site development, building fixtures and equipment used in a project.

- Kentucky Jobs Development Act - For new and expanding service and technology related projects. KJDA projects may receive a 100% credit against the state income tax arising from a project and may collect a job assessment fee of up to 5% of the gross wages of each employee whose job is created by the project and who is subject to Kentucky income tax. Amounts can be up to 50% of project start-up cost and up to 50% of annual facility rental cost or rental value for up to 10 years. The local community must approve the project prior to the submission of an application.

- Kentucky Industrial Development Act - For new and expanding manufacturing projects. Projects approved under KIDA may receive state income tax credits for up to 100% of its capital investment for up to 10 years on land, buildings, site development, building fixtures and equipment used in a project. Or, the company may collect a job assessment fee of 3% of the gross wages of each employee whose job is created by the approved project and who is subject to Kentucky income tax.

- Kentucky Economic Opportunity Zone Program - New or expanding manufacturing or service/technology companies may be permitted the following inducements under the KEOZ program:
    - An income tax credit of up to 100% of the Kentucky income tax liability on income generated by or arising out of the project; and
    - A job development assessment fee of up to 5% of gross wages

- Bluegrass State Skills Corporation Grant Reimbursement Program- Companies conducting training are eligible for matching grant funds for customized business and industry-specific training programs.

- Direct Loan Program - The Direct Loan Program provides loans at below-market interest rates (subject to the availability of state revolving loan funds) for fixed asset financing for agribusiness, tourism, industrial ventures, or the service industry. Retail projects are not eligible.

- Industrial Revenue Bonds - IRBs issued by state and local governments in Kentucky can be used to finance manufacturing projects and their warehousing areas, major transportation and communication facilities, most health care facilities, and mineral extraction and processing projects.

- Tax Increment Financing - Tax Increment Financing allows the cost of infrastructure and the costs of assembly, relocation, demolition and development of a site within a designated redevelopment district to be financed through future increases in property taxes generated by the development itself.

Nashville, TN

- Jobs Tax Credit- New or expanding companies that create 25 jobs and invest $500,000 are eligible for a $2,000 credit against franchise and excise tax.

- Corporate Excise Tax Credit- New and expanding companies are eligible for a credit of one percent of the cost of industrial machinery that has been certified by the Tennessee Department of Revenue, Sales and Use Tax Division. Can be taken as an industrial machinery excise tax credit.

- Sales Tax Exemptions- Sales tax exemptions and reductions are available on industrial machinery, energy, fuel and water used in a manufacturing process or processing of products for resale off premises. Raw materials for processing, pollution control equipment for manufacturers, and materials that become a component part of the manufactured product are also sales tax-exempt. Material handling equipment and racking equipment are also sales tax-exempt for distribution companies investing a minimum of $10 million over three years. Credits of 5.5 percent of building materials, equipment, and machinery for headquarters of more than $20 million in construction investment are also available.

- Training- New and existing businesses are eligible for an incentive by the Tennessee Department of Economic and Community Development when associated with new investment for facilities, equipment and new job hires.

- Tennessee Job Skills Program- Workforce incentive grant program through the Tennessee Department of Economic and Community Development focused on enhancing employment opportunities and meeting the needs of new and existing industry. Through training, the program shall give priority to the creation and retention of high-wage jobs. Focus is on employers and industries that promote high-skill, high-wage jobs for emerging, in-demand, and high-technology manufacturing occupations.

- Tennessee Industrial Infrastructure Program- For development of new sites, grants are available to offset infrastructure improvement costs, site costs and other infrastructure-related costs such as water and wastewater extensions, transportation extensions, site improvements, and other improvements. The maximum amount available for any one project is $750,000.

- Payment In Lieu of Tax - These requests are considered on a case-by-case basis by city and county officials and are based on an analysis of job creation, economic impact, capital investment and wage rates.

- Industrial Revenue Bonds- Each of the 10 counties in the Nashville Economic Market has an active industrial development board authorized to issue bonds to finance industrial facilities. Tax-exempt industrial development bonds are available for qualified manufacturing operations.

- Foreign Trade Zones- A foreign trade zone provides flexibility and cost savings to importers and exporters. Goods can be stored, processed, manipulated and integrated with domestic goods, all before paying duties.

- Tax Increment Financing - Tax Increment Financing allows the cost of infrastructure and the costs of assembly, relocation, demolition and development of a site within a designated redevelopment district to be financed through future increases in property taxes generated by the development itself.

Industry Analysis

Distribution

Based on the assumptions and costs of doing business delineated above, we calculated the cost of operating a distribution center in each location. A summary of the results are shown in the table below:

Distribution

	Memphis	DeSoto	Indianapolis	Louisville	Nashville
Annual Cost Of Labor	$3,618,000	$3,618,000	$3,720,600	$3,623,400	$3,558,600
Annual Cost of Utilities	$108,089	$92,856	$96,432	$115,560	$98,488
Annual Building Cost	$600,000	$600,000	$500,000	$614,000	$550,000
Corporate Income Tax Cost	$227,500	$175,000	$297,500	$288,750	$227,500
Sales Tax Cost	$277,500	$210,000	$180,000	$180,000	$240,000
Utility Tax Cost	N/A	$16,714	N/A	N/A	N/A
Property Tax Cost	$175,400	$96,673	$123,750	$60,715	$92,974
Franchise Tax	$37,500	$37,500	N/A	$31,500	$37,500
Net Profits Tax	$3,500	$77,000	N/A	$77,000	$3,500
Total	$5,047,489	$4,923,743	$4,918,282	$4,990,925	$4,808,562
Differential	***$0***	***($123,746)***	***($129,207)***	***($56,564)***	***($238,927)***

Conclusions
Without any incentives taken into consideration, it is more expensive to operate a distribution center in Memphis than in the competing markets. The cost of labor is relatively constant. The cost of utilities is relatively constant. However, the cost of the building, sales tax and especially property tax in Memphis exceeds that of similar costs in the competing markets. Memphis sales tax costs are also high.

Bio-Medical

Based on the assumptions and costs of doing business delineated above, we calculated the cost of operating a bio-medical facility in each location. A summary of the results are shown in the table below:

Bio-Medical

	Memphis	DeSoto	Indianapolis	Louisville	Nashville
Annual Cost Of Labor	$3,446,800	$3,446,800	$3,784,200	$3,129,000	$3,242,400
Annual Cost of Utilities	$108,089	$90,552	$96,432	$130,176	$150,764
Annual Building Cost	$300,000	$350,000	$275,000	$300,000	$600,000
Corporate Income Tax Cost	$182,000	$140,000	$238,000	$231,000	$182,000
Sales Tax Cost	$323,750	$245,000	$210,000	$210,000	$280,000
Utility Tax Cost	N/A	$16,299	N/A	N/A	N/A
Property Tax Cost	$109,970	$54,023	$69,300	$33,461	$51,754
Franchise Tax	$30,000	$30,000	N/A	$25,200	$30,000
Net Profits Tax	$2,800	$61,600	N/A	$61,600	$2,800
Total	$4,503,409	$4,434,275	$4,672,932	$4,120,437	$4,539,718
Differential	***$0***	***($69,134)***	***$169,523***	***($382,972)***	***$36,309***

Conclusions

Before taking any incentives taken into consideration, it is more expensive to operate a bio-medical facility in Memphis than in DeSoto County and Louisville. The cost of labor is relatively constant. In comparing the DeSoto market, the following costs categories are slightly higher in the Memphis area, which could potentially make DeSoto more competitive: utility cost, corporate income taxes, sales taxes, and property taxes. The two major cost variances between Memphis and Louisville is the sales tax and property tax – both of which Memphis is higher.

Nashville is more expensive due primarily to land/facility prices. Indianapolis is more expensive due to labor costs and higher income tax costs.

High-Technology/Light Industry

Based on the assumptions and costs of doing business delineated above, we calculated the cost of operating a high-technology/light industry facility in each location. A summary of the results are shown in the table below:

High-Tech/Light Industry

	Memphis	DeSoto	Indianapolis	Louisville	Nashville
Annual Cost Of Labor	$3,620,700	$3,620,700	$4,209,300	$4,212,000	$4,028,400
Annual Cost of Utilities	$108,089	$90,552	$96,432	$115,560	$135,572
Annual Building Cost	$450,000	$500,000	$400,000	$453,500	$737,500
Corporate Income Tax Cost	$364,000	$280,000	$476,000	$462,000	$364,000
Sales Tax Cost	$740,000	$560,000	$480,000	$480,000	$640,000
Utility Tax Cost	N/A	$16,299	N/A	N/A	N/A
Property Tax Cost	$146,320	$77,718	$99,550	$48,602	$74,654
Franchise Tax	$60,000	$60,000	N/A	$50,400	$60,000
Net Profits Tax	$5,600	$123,200	N/A	$123,200	$5,600
Total	$5,494,709	$5,328,469	$5,761,282	$5,945,262	$6,045,726
Differential	***$0***	***($166,240)***	***$266,573***	***$450,553***	***$551,017***

Conclusions

Before the consideration of any incentives, the cost of operating a high-technology facility is more expensive in Memphis than in DeSoto County and less expensive than in the rest of the markets. Memphis' high land and property and sales tax costs are the driver of the higher costs. Indianapolis, Louisville, and Nashville all have higher labor rates than Memphis. Nashville has a significantly higher building cost.

Professional Services

Based on the assumptions and costs of doing business delineated above, we calculated the cost of operating a professional service facility in each location. A summary of the results are shown in the table below:

Professional Services

	Memphis	DeSoto	Indianapolis	Louisville	Nashville
Annual Cost Of Labor	$10,608,000	$10,608,000	$10,000,000	$9,884,000	$9,852,000
Annual Cost of Utilities	$30,709	$19,909	$16,876	$21,870	$20,407
Annual Building Cost	$833,000	$500,000	$750,000	$859,000	$850,000
Corporate Income Tax Cost	$227,500	$175,000	$297,500	$288,750	$227,500
Sales Tax Cost	$138,750	$105,000	$90,000	$90,000	$120,000
Utility Tax Cost	N/A	$3,584	N/A	N/A	N/A
Property Tax Cost	$248,100	$144,062	$184,250	$92,606	$138,774
Franchise Tax	$37,500	$37,500	N/A	$31,500	$37,500
Net Profits Tax	$3,500	$77,000	N/A	$77,000	$3,500
Total	$12,127,059	$11,670,055	$11,338,626	$11,344,726	$11,249,681
Differential	***$0***	***($457,005)***	***($788,434)***	***($782,334)***	***($877,378)***

Conclusions

Before the consideration of any incentives, in Memphis it is more expensive to operate a professional services firm than in the other locations. Higher facility prices and property taxes are the main driver of this. Memphis' labor rate is also higher than Indianapolis, Louisville, and Nashville.

Overall Conclusions

Across the industries we have observed some broad themes. Memphis competes in each industry, in some industries better than others. It is the most expensive location for distribution centers. This seems counter-intuitive because Memphis has had much success with distribution centers. However, this analysis focused on business costs. Business costs are one piece to the total decision of where a company locates. One must also consider the non-quantitative issues, such as the proximity to the Fed Ex distribution hub. This factor is very significant in the Memphis market.

Of the locations we have analyzed, DeSoto County is consistently the least expensive location in which to operate a business. This is largely driven by low lease rates and low property taxes combined with low labor rates. Indianapolis and Louisville are somewhat in the middle of the pack. Their costs are relatively consistent with the other markets with no real extremes. Other than Memphis, Nashville is consistently the most expensive location in which to operate across all industries. Labor and building costs are consistently high in Nashville.

APPENDIX

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